

Growing Beyond

EY's attractiveness survey

India 2014

Enabling the prospects



EY

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working world

Attractiveness

EY's attractiveness surveys

EY's attractiveness surveys are widely recognized by our clients, investors, the media and major public stakeholders as a key source of insight on foreign direct investment (FDI). Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses to make investment decisions and governments to remove barriers to future growth. A two-step methodology analyzes both the reality and perception of FDI in the respective country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

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Foreword

Fundamentally intact



Jay Nibbe
Chair of Global
Accounts Committee



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Country Managing
Partner – India and
Chair of Emerging
Markets Committee

For over a decade, we've been asking international business leaders to talk to us about investment markets and explore ways in which countries and regions around the world can improve their investment environments.

We are happy to present the key findings of our third *India attractiveness survey*, which show that, despite recent headwinds, India remains an attractive destination for foreign direct investment (FDI), alongside the US, China, the UK and Brazil, on account of its solid domestic market, educated workforce and competitive labor costs.

India features prominently in many of our respondents' plans for the future. In the short term, we see investors consolidating their presence in India. 2014 will be decisive for new players as the election results come in and expectations are formed in terms of sustaining the pace of reform and deregulation.

Investors are considering India for both their services and manufacturing supply chain, but for investments to materialize, the environment must be more enabling and measures on other competitive issues, including currency stability and ease of doing business, must be implemented. The consumer products, industrials, technology, media and telecom (TMT) and life-sciences sectors, are set to drive India's growth over the next two years.

The long-term outlook for India is positive, with investors expecting the country to be among the world's top three growth economies by 2020. New business partners, particularly from the Middle East and Southeast Asia, are increasing investment into India - ramping up efforts to tap into an underlying potential that the US, Europe and Japan have long seen.

India continues to draw a healthy share of the capital allocated to emerging markets. Among respondents that had an emerging market strategy, nearly a fifth said that India accounts for more than 20% of their total capital allocated for the developing world. While China continues to be viewed as its main competitor for FDI, destinations such as Indonesia, the Philippines and Vietnam form an emerging wave of competitors.

Our *2014 India attractiveness survey* presents a more positive view than that taken by many economic commentators in recent months. However, the country needs to enhance its business environment by reducing corruption and strengthening the rule of law, develop infrastructure, boost manufacturing, simplify its taxation system, ease FDI regulations and increase awareness about its emerging cities.

We hope that these findings and the full report will be useful to business leaders drawing up their investment strategies.



Focus on the fundamentals

Montek Singh Ahluwalia
Deputy Chairman, Planning Commission

“Growth should be inclusive, leading to a substantial reduction in poverty and the emergence of many more growth poles across the country.”

India is the second-largest emerging country and has demonstrated the ability to grow rapidly. While growth slowed down in 2011-12, this was simply the adverse impact of a global downturn, combined with the emergence of some domestic problems (which are now being resolved).

The short-term slowdown does not mean a permanent shift to a lower growth trajectory. India has strong basic fundamentals, including a high rate of savings, an increasingly skilled labor force, a dynamic private sector with first-rate management capabilities and increasing global competitiveness in many areas. There are also some deficiencies, most notably in the area of infrastructure. However, the Government recognizes these weaknesses and correcting them is a high priority. The economy is therefore well positioned to get back to a higher growth path of around 8% per year, which it could maintain for several years.

The return to faster growth will not happen automatically. The Government needs to work on several areas. First, it must ensure a sound macroeconomic environment, reversing the fiscal deficit rise that took place from 2008 onward. Second, we need to rapidly step up investment in infrastructure from public sources and public private partnerships. This is the single-biggest

supply-side constraint for India's growth and competitiveness. Third, we need to bring our energy prices in line with global prices through a gradual transition. Fourth, the goods and services tax (GST) will be a major step forward in indirect taxation. Finally, we need to improve the ease of doing business, where India's ranking is too low.

High levels of investment, especially in infrastructure; continued economic reforms, promoting higher levels of productivity; and buoyant domestic demand, reflecting the impact of an inclusive growth process, would drive growth over the next 5 to 10 years. We are seeing an underlying strengthening in agricultural performance, which I expect will continue. It needs to be supported by a strong recovery in manufacturing. India has done well in services, but not as well in manufacturing. Special efforts are needed to improve competitiveness in manufacturing.

The longer-term perspective is therefore one in which the current slowdown will hopefully be overcome in the next two years, and India will be back to average annual growth of around 8%. This growth should be inclusive, leading to a substantial reduction in poverty and the emergence of many more growth poles across the country.

Executive summary

1 In the top five

Global FDI in 2012

11,789 projects

US\$565b inflows

1.62m jobs

India's share in global FDI in 2012

6.3% of projects

5.5% of inflows

9.4% of jobs



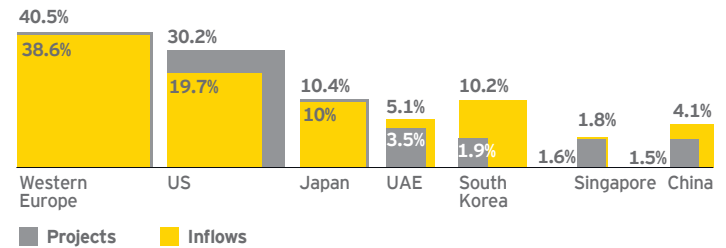
Source: fDi Intelligence.

India was the fourth-largest recipient of FDI in terms of projects started in 2012, and in terms of value, it accounted for 5.5% of global FDI. Although the number of jobs declined slightly in 2012 (due to a drop in industrial projects), India still accounts for 9.4% of jobs created by FDI around the world.

► For more on global FDI and India's position, turn to [p.11](#)

2 Increased interest from the Middle East and Southeast Asia

FDI in India by source country or region (2007-12)



Source: fDi Intelligence.

Investors across the world recognize India's FDI potential. Between 2007 and 2012, the US invested the most in India, with 30.2% of projects, followed by Japan with 10.4%. Seven of the top 10 investors in India during 2007-12 were from Western Europe, led by the UK and followed by Germany and France. India's pool of business partners is growing, with a striking 123.3% rise in the number of projects from the Middle East in 2012, mostly in financial services. Southeast Asian countries are also expanding their investment in the country, with projects mainly originating from Singapore, Malaysia and Thailand.

► For more on India's sources of FDI, turn to [p.20](#)

3 Top FDI destinations

Most attractive cities

City	Reality		Perception	
	% share in number of projects 2007-12		% of survey responses	
Mumbai	14.8%		51.2%	
Bengaluru	15.0%		37.8%	
New Delhi/NCR*	16.1%		37.4%	
Chennai	10.1%		14.6%	
Pune	7.8%		13.1%	
Chandigarh	0.5%		10.7%	

Sources: fDi Intelligence; EY's 2014 India attractiveness survey (total respondents: 502). *NCR for reality and New Delhi for perception.

Actual FDI performance and our survey results both show that metropolitan cities, such as Mumbai, Bengaluru, the National Capital Region (NCR), Chennai and Pune, remain key attractions. On the other hand, there is a significant awareness gap about tier-II and tier-III Indian cities, which also offer opportunities for investment. Forty-three percent of respondents could not think of any city other than the main metropolitan areas. Among those who responded, Ahmedabad was the preferred choice in emerging cities, followed by Jaipur, Chandigarh, Coimbatore and Surat.

► For more on India's current and emerging FDI cities, turn to [p.23 and 52](#)

4 TMT popular but opportunities rising in infrastructure

India's top FDI sectors

Sector	Reality		Perception	
	% share of projects (2007-2012)		In the next two years ...	
TMT	21.6%		TMT	29.9%
Industrials	16.6%		Infrastructure	11.3%
Business services	11.4%		Industrials	11.2%
Automotive	8.4%		Retail	8.6%
Consumer goods	7.7%		Automotive	8.4%
Financial services	6.6%		Life science	4.7%
Infrastructure	5.9%		Business services	3.8%

Sources: fDi Intelligence; EY's 2014 India attractiveness survey (total respondents: 502).

TMT is the most attractive sector to investors, followed by industrial and business services. While TMT will remain the leading sector, investors expect the infrastructure and industrial sectors to become more attractive in the next two years.

► For more on sectors driving growth in India, turn to [p.16 and 45](#)

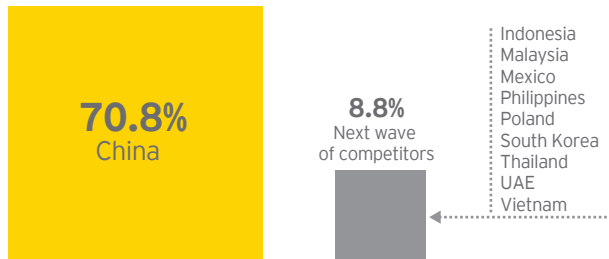
EY's 2014 India attractiveness survey analyzes:

- a) The real attractiveness of India among foreign investors, based on the *fDi Markets database*, which tracks new greenfield and expansion FDI projects but excludes portfolio investments and M&A
- b) The perceived attractiveness of India among foreign investors, based on a representative number of telephone interviews conducted with a panel of international business leaders

► For more on the methodology, turn to p.56

5 New wave of competition

India's main competitors for FDI



Source: EY's 2014 India attractiveness survey (total respondents: 502).

China remains India's main competitor for FDI as both economies are strongly competing to obtain a greater share of world trade and investment. Alongside, new destinations such as Indonesia, the Philippines and Vietnam, are also emerging as competitors. The Philippines is competing with India in the outsourcing industry, whereas Indonesia and Vietnam are also gaining significance due to their huge domestic market.

► For more on India's FDI competitors, turn to p.11 and 33

6 An attractive market with a challenging business environment

Strengths

- Local labor costs
- Domestic market
- Business and management education
- Skilled services workforce
- Local labor skills
- Telecommunications infrastructure



Challenges

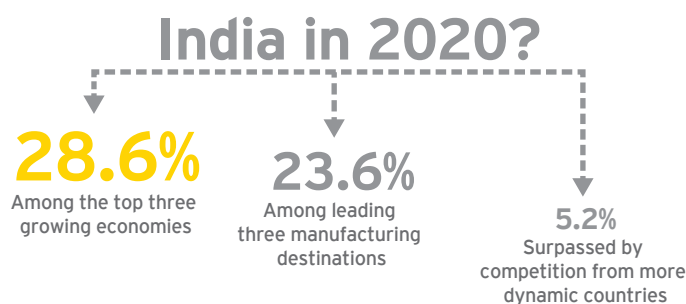
- Legislative and administrative environment
- Transport and logistic infrastructure
- Corporate taxation
- Ease of doing business
- Flexibility of labor law

Source: EY's 2014 India attractiveness survey (total respondents: 502).

India's appeal lies in its competitive labor costs, lucrative domestic market, and its skilled workforce. Foreign investors also applaud its strong management and business education system, as well as its improving telecommunications infrastructure. However, the country's weaknesses are its under-developed infrastructure and a restrictive operative environment.

► For more on India's strengths and challenges, turn to p.36

7 High expectations for 2020



Source: EY's 2014 India attractiveness survey (total respondents: 502).

Respondents to our 2014 survey expect India to be among the top three economies of the world in 2020, particularly for economic growth and manufacturing. This is consistent with our 2012 results. Also, this year only 5.2% of respondents expect India to be surpassed by competition from more dynamic countries, compared with 11% last year. Strengths such as a burgeoning middle class, growing domestic consumption levels and a skilled workforce are helping India to strengthen its position in the global marketplace.

► For more on expectations for India in 2020, turn to p.41

8 Improvement in six steps



Source: EY's 2014 India attractiveness survey (total respondents: 502).

In order to realize its FDI potential, India needs to improve its operating environment and develop infrastructure. Other priorities should include boosting production, improving the taxation system, easing FDI regulations and increasing awareness about emerging cities.

► For more on India's action plan, turn to p.48

India in context

A multi-speed world

India in a global context; highlights for 2012 and 2013

Real GDP growth rates

	2012	2013E*	2014E*	2015E*
World	3.2%	2.9%	3.6%	4.0%
RGMs	4.6%	4.3%	4.7%	5.3%
RGMs				
China	7.7%	7.4%	7.1%	7.3%
Kazakhstan	5.0%	5.5%	6.5%	7.1%
Vietnam	5.0%	4.9%	5.2%	6.4%
India	5.1%	4.1%	4.5%	5.9%
Indonesia	6.2%	5.6%	5.4%	5.9%
Turkey	2.2%	3.9%	3.5%	5.2%
Saudi Arabia	5.1%	4.0%	4.3%	4.3%
US				
US	2.8%	1.6%	2.6%	3.4%
Japan				
Japan	2.0%	1.9%	1.2%	1.1%
Europe				
Eurozone	-0.6%	-0.5%	0.9%	1.4%
UK	0.2%	1.4%	1.9%	2.0%
Germany	0.9%	0.5%	1.7%	1.7%
Greece	-6.4%	-3.9%	-0.7%	1.4%
Italy	-2.6%	-1.9%	0.2%	1.3%
France	0.0%	0.2%	0.7%	1.1%
Portugal	-3.3%	-1.6%	0.7%	1.1%

* Estimate

Sources: *World Economic Outlook*, International Monetary Fund (IMF), October 2013; *EY Rapid-Growth Markets Forecast*, EY, October 2013; *EY Eurozone Forecast*, EY, December 2013.

Rapid-growth markets: drivers of world economy but external pressures weigh on growth

The outlook for most rapid-growth markets (RGMs) has weakened, while the situation is improving in mature markets. These economies have been impacted by rising commodity prices, high current account deficits and, consequently, sharp currency falls. Rising borrowing costs and high inflation are also immediate concerns. But with the right policy responses to the challenges these economies face, they are expected to have a sustainable future. The growth rates of RGMs will continue to exceed those of mature economies. In fact, sectors such as financial services, business services, manufacturing and utilities will witness considerable growth – mostly driven by their growing middle classes.

The US: set for a modest recovery

Although the US grew modestly in 2013, the economy will witness a gradual acceleration through 2015. The upsurge will be led by a rebound in the housing market and increasing household net worth. Nevertheless, the recent tightening of financing conditions, issues regarding the debt ceiling, and tax increases might negatively impact demand in the country.

Japan: enjoying a short-term rebound

The Japanese economy grew at a healthy rate in 2013, triggered by the fiscal stimulus and the easing of monetary policy aimed at boosting private consumption and investment. However, growth might take a hit in 2014, as fiscal policy tightens.

Eurozone: gathering momentum in 2014

The Eurozone achieved a second successive quarter of growth in Q3 2013, marking an end to its recession.¹ Nevertheless, for 2013 as a whole, the Eurozone is forecast to have contracted. It is expected to start growing again in 2014, and so businesses have some time to prepare for the upturn.

The Eurozone's recovery will be driven by stronger export demand, a gradual pickup in world trade, and a projected rebound in investment and domestic demand. On the other hand, low inflation, high unemployment, and overcapacity in certain industries are a threat to the recovery.

1. *World Economic Outlook*, IMF, October 2013.

Getting it right in India

India: geared for the long term

Despite the recent headwinds India has faced, its fundamentals remain solid. The economy is slowly regaining momentum, with both domestic and external conditions starting to improve. Favorable demographics and recent government reforms are expected to accelerate expansion over the medium term, making India the world's fifth-fastest growing economy by 2015. Recent reforms in support of growth include the raised FDI ceilings for the retail, airline, telecoms, financial and defense sectors. To support future growth, the Government should focus on infrastructure investment and increased efficiency in delivery mechanisms. The monetary policy might remain tight in the near future, triggered by the US Federal Reserve's remarks in May about potentially scaling back its quantitative easing program. Consequently, to support the rupee, the Central Bank has announced a window in which foreign currency non-resident US dollar fund swaps will be allowed, enabling banks to convert US dollar deposits by Indians abroad.

India saw tepid GDP growth in 2012, as it grappled with a challenging investment climate. Recently, the economy has been hampered by high fiscal deficit and low investment growth. The Government aims to bring down the fiscal deficit from 4.9% in 2012-13, to 3% by 2016-17.

Sources : *EY Rapid-Growth Markets Forecast*, EY, October 2013; Partha Sinha, "Chidambaram targets 3% fiscal deficit by FY17, 8% GDP growth by FY15," *The Times of India*, 6 April 2013, via Dow Jones Factiva, ©2013 The Times of India Group; "India's 2012/13 fiscal deficit narrows to 4.9 percent of GDP – source," *Business Standard*, 31 May 2013, via Dow Jones Factiva, ©2013 Business Standard Ltd.

Inspire inclusiveness

India needs a business model that serves all segments of the economy equally. The Government has increased its focus on inclusive growth, giving companies the opportunity to tap into the growth of the rural market, which is home to nearly 70% of Indians.

Navigate new opportunities

India welcomes innovative business models because they bring new avenues of growth to the market. Innovation is a strategic priority for firms, as it helps them to grow, achieve market leadership and define their future.

Develop demand

Many successful companies have created new demand for their products and services in India. The country has a young and dynamic population with the potential to adapt to various consumption patterns. However, considerable time should be devoted to identifying and understanding the market, and businesses must also be sure to develop customer loyalty by maintaining high levels of quality.

Innovate for Indian culture

It is very important that companies' products and services suit the Indian mindset. "Glocalization" – accounting for local tastes while maintaining a global outlook – is the key to sustainable business operations in India. Local management teams and alliances with domestic companies can help enhance the understanding of the local culture.

Assess risks and opportunities

The size of India's domestic market and its workforce present a lot of opportunities to companies. On the other hand, regulatory challenges are a source of risk. There needs to be an intense focus on governance. Companies should also keep their cost structures tight and have the ability to manage volatility. Businesses entering the Indian market must have contingency plans in place.

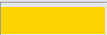














India's latest FDI reform highlights

The Indian Government has passed a number of FDI reforms in the last two years. They are designed to boost foreign investment and generate employment. Broadly, the reforms work toward two main objectives: developing an automatic investment route (i.e., without prior government approval) and increasing FDI limits. In several

sectors, such as petroleum and natural gas, and courier services, the Government has allowed FDI through the automatic route. It has also relaxed sourcing conditions for FDI in multi-brand retail, providing access to the sector across all states and union territories. FDI limits have been raised in a number of sectors.

FDI limit reforms

► These reforms have raised FDI limits in a range of sectors.*

		Date of change	FDI limits (raised to)	
Retail	Single-brand retail	August 2012	100%	
	Multi-brand retail	August 2012	51%	
Telecommunications sector		July 2013	100%	
Asset reconstruction		July 2013	100%	
Courier services		July 2013	100%	
Tea plantation		July 2013	100%	
Broadcasting sector		August 2012	74%	
Credit information companies		July 2013	74%	
Aviation sector		August 2012	49%	
Insurance sector		July 2013	49%	
Power exchanges		July 2013	49%	
Stock exchanges and depositories		July 2013	49%	
Petroleum refining		July 2013	49%	
Defense sector**		July 2013	26%	
Pension funds		September 2013	26%	

* "Government announces big bang economic reforms: Highlights," *The Economic Times website*, www.economicstimes.indiatimes.com, accessed March 2013; "Govt unleashes big-bang FDI reforms, opens up defence," *The Times of India website*, www.articles.timesofindia.indiatimes.com, accessed 18 July 2013; "Parliament passes key Pension Bill after about 9-year delay," *The Economic Times website*, www.articles.economicstimes.indiatimes.com, accessed 11 September 2013.

** "Safe Harbour Rules Finalized after Considering Comments of Various Stakeholders; Rules to Be Applicable for 5 Assessment Years Beginning from Assessment Year 2013-14," *Press Information Bureau*, Government of India, 18 September 2013, p.1.

Other significant reforms

► Companies act 2013

This act replaces the Companies Act 1956 and aims to enhance corporate governance in India. It is expected to make it easier and more efficient to do business in India by instilling self-compliance, accountability and greater transparency.

► Land Acquisition, Rehabilitation and Resettlement act, 2013

This act will replace the 120-year-old Land Acquisition Act and streamline the process of land acquisition in the country. These reforms have raised FDI limits in a range of sectors.

► Safe harbor rules

The finance ministry finalized the safe harbor rules in September 2013, with the objective of easing transfer pricing rules for multinationals operating in India.***

► Alternative Investment Funds (Amendment) Regulations, 2013

In September 2013, the Securities and Exchange Board of India (SEBI) amended the Alternative Investment Funds regulations to include "angel funds" in the definition of "venture capital funds." This will encourage entrepreneurship in the country by increasing financing options for start-ups.

► Amendments in the transfer pricing circulars

The Central Board of Direct Taxes issued new guidelines on the transfer pricing rules for R&D centers. These have made the rules clearer and have given greater flexibility to multinational companies that qualify for inter-company arrangements.

► Tax Administration Reform Commission (TARC)

The Finance Ministry set up the TARC, with an 18-month term, with the aim of enhancing tax governance. The commission has been asked to make recommendations to improve the detection and prevention of tax offenses.

*** Higher in the case of state-of-the-art technology.

Sources: "Amendments to SEBI (Alternative Investment Funds) Regulations, 2012," *Securities and Exchange Board of India website*, www.sebi.gov.in, 16 September 2013; *EY's Global Tax Alert (News from Transfer Pricing)*, 2 July 2013, EY, 2013 p.1; "Government Sets up Tax Administration Reform Commission Under Dr. Parthasarathy Shome," *Press Information Bureau*, Government of India, 26 August 2013.

Interview



Consolidation to drive next wave of growth

Cai Liqun
CEO, Huawei India

In 2013, the Indian economy was faced with challenging macroeconomic conditions, rising inflation and a deteriorating fiscal situation. Nevertheless, the country's fundamentals are still strong and that will continue to drive business and economic growth.

The Indian Government has recently opened up key sectors, such as multi-brand retail and telecoms, to FDI. This initiative, coupled with the strong growth in consumption of India's rural markets, is encouraging foreign investors, as this is an important indicator of long-term stability of the economy. Furthermore, new job opportunities are emerging in software, IT, telecoms, construction and financial services. The Government's efforts to increase regulatory transparency will help drive international business confidence in the near-to-medium term. Based on all of these trends, we foresee better prospects for medium-term investments in 2014. Private players should guide the country's regulatory and policy climate through consultative and collaborative dialogues between industry and government.

Particularly, in the telecoms sector, I see the relaxation of FDI limits as a step in the right direction. The Indian telecoms industry is headed toward consolidation and growth. The National Telecom Policy (NTP) 2012 (replacing the old 1999 policy) has outlined key policy initiatives, such as abolition of roaming, introduction of number portability and enhancement of rural penetration from the current 40% to 70% levels by 2017. In addition, the telecom license has been decoupled from the spectrum, which will enable operators to provide new, technology-based services, such as 4G Long Term Evolution (LTE) and 3G enabled mobile broadband. Furthermore, opportunities in broadband data are manifold, given the huge unmet demand from retail and wholesale markets. Enterprises are migrating toward cloud computing platforms, in order to address IT service agility, based on software-defined networking and network functions virtualization technologies. All these factors will boost consumption of telecoms and broadband services in the coming years, and also encourage foreign investments.

With the advent of 4G services, and with the forward-looking NTP 2012 policies being implemented in earnest, we expect market momentum to pick up.

In addition, the Government's US\$4b National Optical Fibre Network (NOFN) project, which is under process, introducing

“To boost growth prospects in the telecom industry, the Government should focus on affordable spectrum pricing, provision of contiguous and sufficient spectrum for each operator, driving industry collaboration, especially between telecoms and over-the-top (OTT) players.”

optical cable connectivity to 250,000 village panchayats, will spur the consumption of high-speed data for many services, including e-governance, e-education and telemedicine. Operators are also deploying platforms centered on user experience and unified billing. This should foster collaboration between the operators and the content / over-the-top (OTT) players, leading to the emergence of win-win multi-sided business models. This will drive growth in mobile internet services, and have a multiplier effect on the economy.

To boost growth prospects in the telecom industry, the Government should focus on affordable spectrum pricing, provision of contiguous and sufficient spectrum for each operator, drive industry collaboration, especially between telecoms and OTT players, and focus on achieving overall spectrum efficiency.

The Indian telecoms sector saw the bottom of the curve in 2012. Nevertheless, new and unmet demand from retail and enterprises for broadband data and cloud-based services will drive recovery. Furthermore, the convergence of IT and telecom services, enabled by new TMT technologies, will lead to new revenue models that will drive profitability and boost the industry's growth. Of late, Global System for Mobile communications (GSM) players have reported sequential revenue growth. We foresee this growth becoming stronger with the industry consolidation leading to further operational efficiencies and margin expansion.

Reality

FDI in India today

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Current investors remain certain



Image: Streaks of lights of moving vehicles on the road, National Highway 8, Gurgaon, Haryana, India.

New directions

How FDI in India compares with global investment trends, and top activities for investment.

Uncertainty derails global FDI in 2012

FDI projects across the globe declined by 16.4% in 2012. Recovery came to a halt, with greenfield projects declining. This is the second-biggest decline in FDI since the start of the global slowdown. A number of investors have adopted a wait-and-see attitude, amid slow global demand and uncertainty surrounding regulatory changes.

The Asia-Pacific region continued to attract the most FDI in 2012, increasing its global share to 31.7%. Bangladesh, Indonesia and the Philippines recorded project growth of 66.7%, 11.3% and 7.6% respectively. Bangladesh's surprising performance indicates a shift in the global mindset, with investors shifting FDI away from known growth engines toward other frontier markets that offer considerable untapped labor potential and low-cost market opportunities.² Interestingly, while all regions experienced a decline in investment, the fall of FDI into Africa was lower than the world average. The region also increased its market share of global FDI projects from 5.6% in 2011, to 6% in 2012.

2. *The fDi Report 2013: Global greenfield investment trends*, fDi Intelligence, April 2013.

Shifts in global FDI

	Number of FDI projects (2012)	Change from 2011 (%)
US	1,549	-9%
China	1,083	-24%
UK	921	-8%
India	744	-21%
Brazil	459	-11%
Germany	410	-47%
Russia	265	-18%
France	244	-12%
Poland	237	+5%
South Africa	147	-5%
Turkey	133	-1%
Japan	118	-3%

Sources: fDi Intelligence; UNCTAD World Investment Report 2013.

Key findings

32% of global FDI in 2012 was attracted by Asia-Pacific.

744 investment projects were initiated in 2012.

20% of projects created in 2012 were in TMT.

29% of projects in 2012 originated from the US.

123% increase in projects from the Middle East in 2012.

63% of projects initiated in 2012 were in metropolitan areas – NCR, Bengaluru, Mumbai, Chennai and Pune.

20% of respondents invest more than one-fifth of their emerging market capital in India.

According to *World Investment Report 2013*, developing economies received a greater share of FDI inflows than the developed economies for the first time in 2012. In fact, this year also witnessed a shift in the patterns of investment flows as 9 of the 20 largest FDI recipients were in developing countries.

India's competitive position

Between 2007 and 2012, India received just under 5,000 investment projects with an investment value of US\$326.1b (INR17.5t).³ In total, these projects created around 1.4 million jobs. In 2012, slow economic growth and a lack of transparency and consistency in FDI policies constrained inward investment activity. Furthermore, infrastructure bottlenecks and regulatory hurdles weighed on investor confidence.

Although the Indian Government is moving ahead with reforms designed to attract more FDI, investors require more progress to be made before they are confident about the country's prospects. Competitors, such as Indonesia, Turkey and Vietnam, are steadily

increasing their investment appeal, and are providing tough competition for India.⁴

India's global position

In 2012, India recorded similar trends as in 2011 in terms of its share of world projects (2011: 6.8%) and total investment value (2011: 5.7%). However, India's share of world jobs declined marginally, due to a steep reduction in industrial projects. The average jobs created per manufacturing project declined from 450 in 2011 to 349 in 2012. Nevertheless, India still ranks among the top five FDI destinations across the world: in fourth position, it is ahead of its next competitor, Brazil, by more than 70% in terms of project numbers.

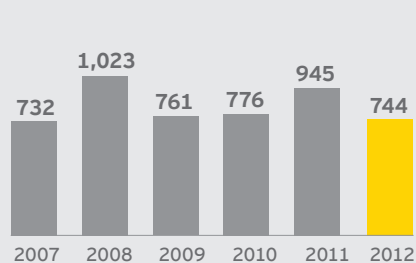
3. "Currency converter," Oanda website, www.oanda.com, accessed 6 September 2013; exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

4. EY Rapid-Growth Markets Forecast, EY, July 2013.

FDI in India

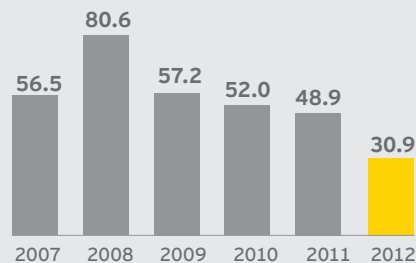
(2007-12)

Number of projects

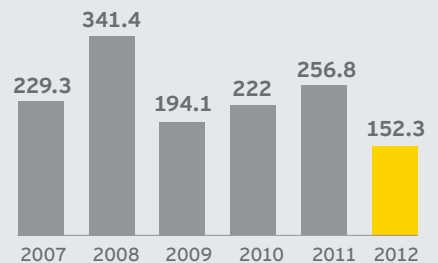


Source: fDi Intelligence.

Capital investment (US\$b)



Job creation (in thousands)



India's share in global FDI in 2012

6.3%
of projects

5.5%
of inflows

9.4%
of jobs



Source: fDi Intelligence.

World's top five FDI destinations

	Number of FDI projects (2011)	Number of FDI projects (2012)
US	1,700	1,549
China	1,432	1,083
UK	1,002	921
India	945	744
Brazil	515	459

Source: fDi Markets, from the Financial Times Ltd.

Manufacturing declines sharply, other activities more stable

Between 2007 and 2012, services accounted for 52.2% of FDI projects, while manufacturing accounted for 31.2%. In 2012, the service activity's share increased to 61.3%, but manufacturing's declined to 24.3%. Issues such as poor infrastructure, land acquisition, regulatory hurdles and the slow pace of reforms have hampered manufacturing projects.

However, despite low project numbers, manufacturing leads FDI in job creation and total capital inflows. On average, in 2012, a manufacturing project created 349 jobs and was worth US\$81m

(INR4.4b), in comparison with services projects, which, on average, created 129 jobs and brought in US\$25.1m (INR1.3b) per project.⁵ The role of manufacturing is therefore significant and the encouragement of such projects integral, as the services sector alone is less likely to absorb the 250 million youngsters who are set to join the working population in the next 15 years.⁶

5. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

6. "Manufacturing in India: The masala Mittelstand," *The Economist*, 11 August 2012, via Dow Jones Factiva, ©2012 The Economist Newspaper Limited.

FDI in India by activities

(2007-12)

	Project numbers (% share)		Jobs created (% share)		Capital investment (% share)	
	2007-12	2012	2007-12	2012	2007-12	2012
Services	52.2%	61.3%	31.7%	38.6%	23.6%	37.1%
Manufacturing	31.2%	24.3%	50.2%	41.5%	61.9%	47.4%
Retail, construction, recycling and extraction	9.9%	7.8%	15.0%	16.8%	11.4%	12.4%
Strategic functions	6.7%	6.6%	3.1%	3.1%	3.1%	3.1%

Manufacturing includes Industrial activity; Logistics, distribution & transportation; and Electricity). **Services** includes Sales, Marketing & support; Business services; Design, Development & testing; Maintenance & servicing; Customer contact center; Technical support center; Shared services center; TMT internet infrastructure). **Strategic functions** include Education & training; Research & development; and Headquarters).

Source: fDi Intelligence.



Logistics calling

+50% in 2012 project numbers

India's logistics, distribution and transportation industry has attracted significant investor attention in the past few years. Projects increased from 20 in 2011 to 30 in 2012, while capital investment increased from US\$1.1b (INR59.1b) to US\$2.6b (INR139.8b).⁷ The US and Germany are the top two investors in the sector, while Maharashtra is the favorite destination for logistics projects. The opening of the retail and aviation sectors has also created the need for a robust logistics infrastructure and has thus encouraged investments in warehouses and supply chains.

In September 2012, the Saudi-based Al Abeer group announced plans to set up an "Edu-city," an integrated medical and education project near Malappuram town in Kerala. This project has an estimated cost of US\$102.3m (INR5.50b) and will house an international school, a medical college, a nursing college, an engineering college and a management college.

Sources: Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012; "Plan to set up Rs 550cr Edu-city project," *The Times of India website*, www.articles.timesofindia.indiatimes.com, accessed 10 August 2013.

7. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

Education and training evolves

+52.9% in 2012 project numbers

India's education sector is still developing. It requires as much attention and investment from private and foreign players as it does from the Government. Between 2011 and 2012, the number of projects in education and training increased from 17 to 26, while capital investment decreased from US\$246.8m to US\$206.8m (INR13.3b to INR11.1b).⁸ The US is the top investor and Bengaluru, Mumbai and Pune are the top destinations for education projects.

According to EY's report, *40 million by 2020: preparing for a new paradigm in Indian higher education*, the higher education sector in India is forecast to grow at 18% per annum until 2020. This is thanks to the service-driven model of the Indian economy and the growing demand for quality education. Furthermore, there are considerable opportunities in new niche sectors, such as vocational training, finishing schools and e-learning.

In October 2012, Germany-based logistics group Deutsche Post DHL announced an investment of US\$128.6m (€100m or INR6.9b) to expand its transport fleet and increase its warehouses to eight new locations in India. These new facilities will add an additional warehousing space of five million square feet, enabling Deutsche Post DHL to cater to rising demand in the country. Currently, India is also seeking German investments in the shipping and maritime sector, in a bid to gain access to German technology and expertise in this field.

Sources: "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used €1 = US\$1.286, as per monthly average for 2012; "DHL to invest €100 million in India," *Live Mint website*, www.livemint.com, accessed 7 August 2013; "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

8. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

Strengthening India's manufacturing ecosystem

Enabling government policies

A national manufacturing policy (NMP) was introduced in 2011. It aims to increase the share of manufacturing to at least a quarter of GDP and create 100 million jobs by 2022. The policy is expected to boost manufacturing by addressing issues such as complex regulations and compliance, labor problems, skill shortages and insufficient infrastructure.

Infrastructure development

One of the biggest initiatives aiming to develop infrastructure in India is the creation of the Delhi Mumbai Industrial Corridor (DMIC), which will cover six states (Uttar Pradesh, NCR of Delhi, Haryana, Rajasthan, Gujarat and Maharashtra). As a part of the DMIC plan, the Government is building a multimodal, high-axle load dedicated freight corridor (DFC) between Delhi and Mumbai, covering 1,483km in length. Twenty-four investment areas – 11 investment regions and 13 industrial areas – are planned across these 6 states. They will have access to a range of infrastructure facilities, such as power and rail connections to ports. The Government also recently announced the Peninsular Region Industrial Development Corridor (PRIDE corridor), which will run through important centers in South India, namely Andhra Pradesh (AP), Chennai, Bengaluru and Mumbai, with designated hubs. These hubs will have specific zones for sectors such as steel, cement, food processing, information technology, automobile, ready-made garments, petroleum, and chemicals and petrochemicals. Another corridor – the Chennai-Bengaluru Industrial Corridor – was announced in the 2013-14 Budget.

Land acquisition and availability

Under the NMP, the Government is developing National Investment and Manufacturing Zones (NIMZs) – greenfield industrial townships measuring at least 5,000 hectares each. These zones enjoy benefits such as single-window clearance, a liberal exit policy, exemptions from capital gains tax, and incentives for green manufacturing and technology acquisitions.

Sources: *National Manufacturing Policy*, Department of Industrial policy and promotion, 25 October 2011, p.1.; "History," *Delhi Mumbai Industrial Corridor website*, www.dmicdc.com, accessed 28 July 2013; "Delhi Mumbai Industrial Corridor," *Delhi Mumbai Industrial Corridor website*, www.dmic.co.in, accessed 17 July 2013; "Mumbai-Bangalore-Chennai corridor: 8 things that will change urban India," *The Economic Times website*, www.economicstimes.indiatimes.com, accessed 16 June 2013; "Maharashtra plans Mumbai-Bangalore industrial corridor," *Business Standard website*, www.business-standard.com, accessed May 2013; *Skills Development Sector Profile*, Federation of Indian Chambers of Commerce and Industry (FICCI), 16 January 2012, p.3; "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012; "India to establish Technology Acquisition Fund," *The Economic Times website*, www.articles.economicstimes.indiatimes.com, accessed 20 May 2013; "Innovation fund proposal to reach Cabinet soon," *The Economic Times website*, www.articles.economicstimes.indiatimes.com, accessed 7 October 2013; "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0182, as per monthly average for 2013.

Workforce and talent development

Currently, only 7% of the working age population receives vocational education. Under its National Skill Policy 2009, the Government aims to impart skills to 500 million people by 2022. To implement this, it set up the National Skills Development Corporation (NSDC), which provides skills programs specific to industry requirements.

Ensuring energy supply

A Technology Acquisition and Development Fund (TADF) is being established for the purpose of acquiring environmentally friendly and energy-saving technologies. Small and medium-sized enterprises (SMEs) will be eligible to access the patent pool and claim reimbursement for part of the costs of acquiring technology – up to a maximum of US\$37,200 (INR2m) for technologies patented up to a maximum of five years.

Balancing trade agreements

India has entered several bilateral and regional free trade agreements (FTAs) and forged comprehensive economic partnerships. Some examples include, the India-Thailand Comprehensive Economic Cooperation Agreement (CECA), the India-Japan Comprehensive Economic Partnership Agreement (CEPA), and the recent India-ASEAN FTA, in services and investments. These have left the Indian industry open to competition from relatively well-placed overseas manufacturers.

Building innovation capacity

The Ministry of Micro, Small and Medium Enterprises (MSME), along with the National Innovation Council, is working toward a US\$1b (INR55b) "India inclusive innovation fund" to invest in a new generation of innovative companies. Moreover, the Union Budget FY13-14 declared that incubator funding would form a part of corporate social responsibility (CSR) expenditure for companies, thus fostering entrepreneurship and innovation in the country.

Strength in knowledge-intensive and heavy industries

Over the years, India has been considered a strong service destination. Recently, the Indian Government has supported investment in service industries as it seeks to reap the benefits of the underlying pool of educated workers. But it is important to note that heavy machinery sectors (industrial, automotive, infrastructure, chemicals, metals and mining, aerospace, energy and cleantech) have also accounted for 43.7% of the total FDI projects between 2007 and 2012.

TMT

Software, IT services, communications, semiconductors, and electronic components

Investment in TMT is driven by the sector's strong outsourcing potential, the emergence of cloud and tele-services, increasing

digitization in media and rising technology demand from a number of customer segments, such as government, corporate and consumer. To meet the growing demand for android smartphones and tablets, Google is setting up Android Nation stores in India.⁹ Government measures to increase local electronics production, such as subsidies on capital spending, interest-free loans and tax breaks, also drive foreign investment. For example, global TMT players IBM and STMicroelectronics are capitalizing on these incentives while investing US\$8b (INR439.6b) to set up semiconductor wafer plants in India.¹⁰

9. "India Second Asian Nation To Get Google Store," *Forbes website*, www.forbes.com, accessed 12 November 2013.
10. "India lures chip makers, says IBM and STMicro interested," *Reuters website*, www.reuters.com, accessed 13 November 2013.

However, the average size of deals for TMT projects dropped in 2012. This is due in large part to the 87.5% decline in high-value internet infrastructure projects. US-based companies started fewer projects to establish data and cloud computing centers, and launched fewer 3G and 4G network projects.¹¹ The decline was also a result of companies such as General Electric choosing to locate their information technology support centers closer to their end markets.¹²

Industrials

Industrial machinery, equipment and tools, textiles, rubber, business machines and equipment, engines and turbines, space and defense, wood products, and paper, printing and packaging

Although India's industrial sector has not reached its full potential, it makes a significant contribution to the country's FDI profile. Within the sector, heavy machinery and equipment (57.7%) and textiles (17.9%) were the largest recipients of FDI. India's industrial appeal is based on its 498.7 million-strong skilled labor force – the second-largest among RGMs – and its low labor costs.¹³ Indicative is Siemens Home Appliances, which plans to establish a washing machine manufacturing plant in Chennai and is also considering expanding its retail presence across the country.¹⁴

Industrial activity in India, is however, challenged by infrastructural bottlenecks, and antiquated labor and factory laws. In

11. "TMT and internet infrastructure sector records drop in project numbers," *fDi Intelligence website*, www.fdiintelligence.com, accessed 12 November 2013; "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0182, as per monthly average for 2013.
12. "Here, there and everywhere," *The Economist website*, www.economist.com, accessed 13 November 2013; "On the turn," *The Economist website*, www.economist.com, accessed 13 November 2013.

13. *United Nations Conference on Trade and Development (UNCTAD) website*, www.unctadstat.org, accessed 29 August 2013.
14. "Siemens plans manufacturing plant near Chennai," *The Hindu Business Line website*, www.thehindubusinessline.com, accessed 18 September 2013.

Sector-wise contribution of FDI (2007-12)

Sectors	Number of projects (% share)		Capital investment (% share)		Jobs created (% share)	
	2007-12	2012	2007-12	2012	2007-12	2012
TMT	21.6%	20.3%	12.7%	8.8%	19.2%	17.5%
Industrials	16.6%	14.2%	8.7%	8.1%	14.7%	13.0%
Business services	11.4%	13.0%	2.1%	3.6%	7.6%	9.2%
Automotive	8.4%	6.6%	12.3%	11.4%	15.7%	12.9%
Consumer goods	7.7%	9.0%	4.0%	7.8%	8.4%	11.4%
Financial services	6.6%	10.6%	4.7%	9.8%	5.4%	8.7%
Infrastructure	5.9%	4.7%	10.3%	7.7%	13.7%	10.2%
Chemicals	5.5%	5.6%	3.1%	6.4%	2.3%	3.5%
Logistics	4.9%	8.1%	7.9%	17.1%	2.6%	4.7%
Life sciences	4.1%	3.0%	3.1%	4.9%	1.9%	2.8%
Metals and mining	4.0%	2.8%	20.4%	10.2%	6.3%	5.0%
Aerospace	1.2%	0.8%	1.0%	1.0%	0.9%	0.4%
Energy	1.2%	0.5%	7.9%	1.4%	0.9%	0.5%
Cleantech	1.0%	0.7%	1.8%	1.8%	0.4%	0.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: fDi Intelligence.

Top five sectors by FDI (sources and destinations)

	Top three FDI sources (2007-12)			Top three FDI destinations (2007-12)		
	Number of projects (% share)	Capital investment (% share)	Jobs created (% share)	Number of projects (% share)	Capital investment (% share)	Jobs created (% share)
TMT	1 US: 53.6%	US: 43.7%	US: 50%	1 Bengaluru: 26.4%	Bengaluru: 32.1%	Bengaluru: 26.2%
	2 UK: 6.5%	Norway: 7.7%	France: 7.0%	2 NCR: 14.7%	NCR: 15.3%	Hyderabad: 13.2%
	3 Germany: 4.8%	UK: 5.9%	China: 5.1%	3 Mumbai: 13.7%	Chennai: 10.4%	Chennai: 12.4%
Industrials	1 US: 18.8%	US: 21.3%	US: 23.8%	1 NCR: 16.9%	Chennai: 13.4%	Chennai: 14.5%
	2 Japan: 15%	Japan: 17.3%	Japan: 17.1%	2 Pune: 13.7%	Pune: 12.1%	Pune: 12%
	3 Germany: 13.9%	China: 12.4%	Germany: 11.5%	3 Bengaluru: 12.7%	NCR: 10.6%	NCR: 11.3%
Business services	1 US: 34.6%	US: 37.3%	US: 47%	1 NCR: 24.7%	Mumbai: 23.3%	NCR: 22.7%
	2 UK: 23.9%	UK: 19.4%	UK: 21%	2 Mumbai: 23%	NCR: 20.3%	Mumbai: 15.8%
	3 France: 5.8%	France: 8.7%	France: 9.1%	3 Bengaluru: 13.9%	Bengaluru: 16.9%	Bengaluru: 10.7%
Automotive	1 Germany: 24.2%	Japan: 31.2%	Japan: 29%	1 Chennai: 20.5%	Chennai: 28.5%	Chennai: 25.6%
	2 Japan: 24.2%	Germany: 18.8%	Germany: 18.8%	2 NCR: 14.5%	NCR: 10.3%	Bengaluru: 11.8%
	3 UK: 17%	US: 15.8%	US: 14.9%	3 Pune: 14.2	Bengaluru: 8.7%	NCR: 10.8%
Consumer goods	1 US: 25.4%	US: 22.9%	US: 21.5%	1 NCR: 22.7%	Pune: 23.2%	Pune: 19.1%
	2 Japan: 11.5%	UK: 15.5%	Japan: 11.2%	2 Mumbai: 14.1%	NCR: 14.1%	NCR: 17.4%
	3 UK: 8.9%	Germany: 8.8%	South Korea: 10%	3 Bengaluru: 7.1%	Mumbai: 7.8%	Mumbai: 6.5%

Source: fDi Intelligence.

addition, India is facing fresh competition for industrial activity from other low-cost manufacturing destinations such as Thailand and Indonesia.

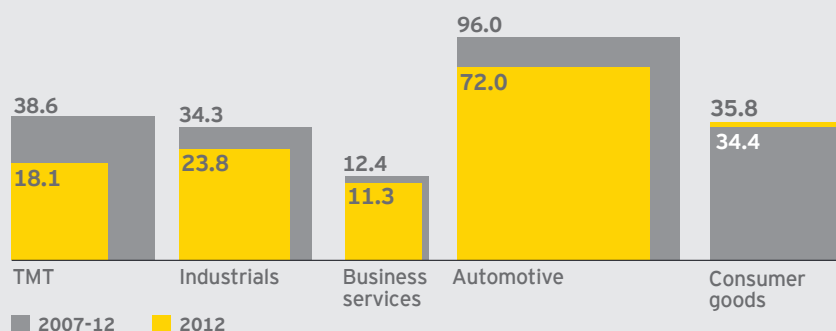
Business services

Business services, and leisure and entertainment

The supply of a young and well-educated English-speaking population is the main driving force behind business services investment in India. An expat-friendly culture also enhances its appeal in this area. Ogilvy & Mather and Publicis Groupe are just two examples of business services companies that expanded their presence in India in 2012. However, the country's current lead in services may not continue. New competitors from other RGMs, such as the Philippines, are now gaining a foothold in the sector.

Top five sectors by FDI

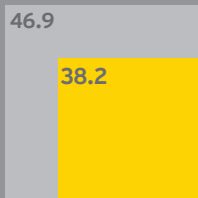
(average deal size in US\$m)



Source: fDi Intelligence.

2012 highlight: financial services

Financial services (average deal size in US\$m)



Source: fDI intelligence.

Between 2007 and 2012, the number of projects in the financial services sector grew at an average annual rate of 18.5%. Its appeal lies in the country's rising income levels, high savings rates and developing credit culture. Furthermore, the penetration of financial products is currently low in the Indian market, representing a significant opportunity for portfolio and wealth management services, insurance and other financial products. The ongoing Industrial Finance Corporation of India (IFCI) Financial City project in Bengaluru, which is expected to be completed by 2015, is also a major attraction for global financial corporations. The ongoing IFCI Financial City project in

Bengaluru, which is expected to be completed by 2015, will be another attraction for global financial corporations. It will house more than 20 banks and financial institutions that will cater to industrial banking and finance, and also to allied activities such as data warehousing, customer relationship management and training.

Foreign interest in the financial services sector increased considerably in 2012. This was primarily due to increased investment from Middle Eastern countries such as the United Arab Emirates (UAE) and Bahrain into Kerala. The Bank of Bahrain and Kuwait (BBK) has recently opened a branch in Kerala to penetrate India's financial services sector further.

Sources: "Financial city coming up near airport," *The Hindu website*, www.thehindu.com, accessed 25 July 2013. "Bank of Bahrain opens third branch in India," *The Economic Times website*, www.articles.economictimes.indiatimes.com, accessed 18 September 2013.

Top three FDI sources (2007-12)

Number of projects (% share)	Capital investment (% share)	Jobs created (% share)
US: 28.1%	US: 34%	US: 35.6%
UAE: 13.5%	UK: 21%	UK: 12.7%
UK: 13.5%	UAE: 9.8%	UAE: 9.4%

Source: fDI Intelligence.

Top three FDI destinations (2007-12)

Number of projects (% share)	Capital investment (% share)	Jobs created (% share)
Mumbai: 29.1%	Mumbai: 24.9%	Mumbai: 24%
NCR: 9.4%	Hyderabad: 8.6%	Hyderabad: 9.3%
Bengaluru: 7%	NCR: 7.7%	Bengaluru: 9%

Source: fDI Intelligence.

is set to become one of the world's top three vehicle-producing countries by 2030.

Consumer products

Food and tobacco, consumer products, consumer electronics, and beverages

Consumer products companies around the world consider India a good investment destination due to its large, growing population and rising income levels. Rapid urbanization has also spurred the culture of consumerism in the country. India is now the third-largest country in terms of purchasing power parity (PPP), and is expected to become one of the largest consumer markets by the end of this decade.¹⁶ Favorable demographics in India outweigh the concerns associated with multitier distribution networks and a fragmented state-wise tax system. Companies are willing to initiate projects in India, despite the distribution and tax issues. Amway Corporation, Starbucks Coffee and luxury goods brand Louis Vuitton, are recent examples of FDI through greenfield investment or expansion in this sector.

Consumer products companies have shown a preference for metropolitan cities in their investments, because of higher levels of disposable income and brand awareness, as well as wider acceptance of western lifestyles. Nevertheless, there are also significant opportunities in rural areas; however, inadequate infrastructure and the difficulty of creating sustainable channel relationships are obstacles. Despite these challenges, companies such as Unilever have successfully cracked the rural market. Other firms, such as Nestlé and GlaxoSmithKline Consumer Healthcare, have also been launching products specifically for rural markets.¹⁷

16. *World Economic Outlook*, IMF, April 2013.
17. "Nestlé, Glaxo focus on rural-specific products," *Business Standard website*, www.business-standard.com, accessed 9 October 2013.

Automotive

Automotive components, and automotive original equipment manufacturers (OEMs)

The growing middle class, low market penetration, supply of skilled, cost-efficient engineers and proximity to emerging markets, have attracted global automotive players to establish facilities in India. Japan-based Honda is setting up a new vehicle assembly facility in Rajasthan, with a total investment of US\$455m (INR25b), while others, such as Suzuki and Nissan are also expanding their capacity in India.¹⁵ Likewise,

15. "Honda Cars India announces Rs 2500 crore investment at Rajasthan plant to start a new phase of growth in the Indian market," *Honda worldwide website*, www.world.honda.com, 8 October 2013; "Amid gloom in auto sector, Japanese firms stand out," *The Business Standard website*, www.business-standard.com, accessed 8 October 2013; "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0182, as per monthly average for 2013.

German luxury car manufacturer Mercedes-Benz is expanding its product portfolio in the country, to cater to the growing demand from varied customer segments.

The country is fast becoming a hub for the export of small cars and the manufacturing of small vehicles of all types, including low HP tractors, backhoe loaders and motorcycles under 110cc. Several automotive firms are now producing these vehicles in their Indian plants for export to South Africa, Southeast Asia and Europe. However, foreign investors have held back recently, particularly in the automotive OEM sector. This is mainly due to short-term market phenomena, such as increasing fuel prices and high interest rates. But the future remains bright: India

Interview



Lifting limits, raising expectations

Eberhard Kern
Managing Director, Mercedes-Benz India

India is one of the world's top investment destinations, driven by its fast-growing local market and low-cost base for production and services. I believe that services (which account for 50% of the economy) and industries will continue to be the main drivers. Manufacturing will also be a growth driver in the next 5 to 10 years – but it must maintain its quality and competitiveness.

On the fiscal deficit, I agree with the Indian Finance Minister that foreign investment is vitally needed. The relaxation of FDI norms in 12 sectors (including insurance, retail and pension funds) has helped to encourage more companies to invest in India – with telecoms, retail and defense production most benefiting. Since FDI is more committed and permanent than portfolio investments, the real impact of the reforms will only be seen in a year or two.

It is important to remember that India is a country of youth. Over the next decades, many young people will expect reasonable employment opportunities, which foreign investment will help to create. And while FDI is important, state governments are also crucial in providing industrial infrastructure, such as power, water and roads.

Because markets in the big metros are becoming saturated, we have already started opening outlets in tier-II and tier-III cities, such as Ludhiana and Coimbatore. Growth will now come from these cities, where there is wealth and willingness to spend; we need proper channels to reach them.

In the auto sector, 100% FDI is allowed. The industry is fully de-licensed, imports of automotive components are allowed at nominal duties, and there are no minimum investment criteria. The Indian passenger vehicle market is the world's seventh largest by volume. By 2020, it will be the third largest – so its potential is immense. But it is investment-intensive and it has a long gestation period. To overcome this, many OEMs use India as their production base for vehicles for export.

“Companies need to understand that volatility is an inherent characteristic of an emerging economy.”

Due to low income levels and high automobile taxes, small and micro cars represent over 75% of the market – value for money is an overriding factor. Nevertheless, customers are beginning to appreciate characteristics such as style and technology. This will make it possible for OEMs to introduce new and innovative products.

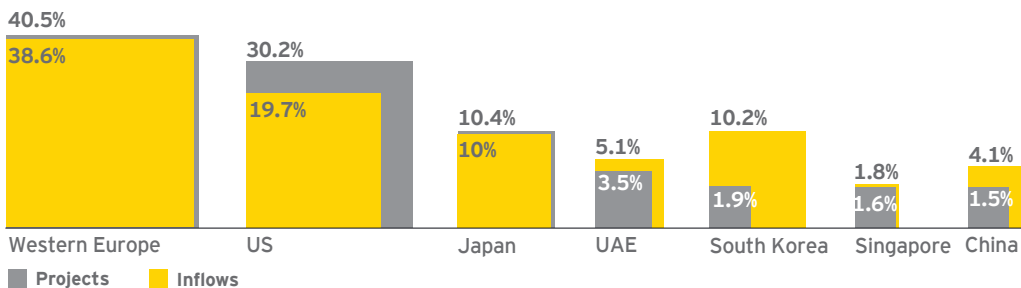
Opening up the sector is a great idea. It allows international companies to raise the level of technology, and to bring innovations in materials and production. International investors are financially strong and have a long-term investment perspective, even in challenging situations. However, they face skewed and inconsistent policies: high taxes, especially for large car engines and imports; no clear fuels road map; underdeveloped infrastructure; rigid labor laws; and bureaucracy. To resolve these issues, the Government should rationalize the tax structure by migrating to a unified GST regime, developing the required infrastructure and providing a clear road map on fuel policy.

New entrants seeking to invest need to understand that India is a market for the future; short-term strategies will not work here. They also need to understand that volatility is an inherent characteristic of an emerging economy. The investors need to make a conscious decision to stay committed, even through the challenging times. India is a democracy – it takes longer to get things done than some other countries, which demands patience.

New sources emerge

FDI in India by source country or region

(2007-12)



Source: fDi Intelligence.

US is the top country investor

Between 2007 and 2012, the US established 1,505 projects worth US\$64.2b (INR3.4t) in India.¹⁸ Currently, the governments of both countries are negotiating a bilateral investment treaty to facilitate two-way investment and strengthen their relationship.¹⁹ The US-India Strategic Dialogue, initiated in 2009, also provides several opportunities for collaboration in areas such as energy, climate change, trade and education.²⁰ Meanwhile, the US India Business Summit (UIBS) is organized every year to promote business and investment between the two countries.²¹

Although American direct investment in India ranges across all sectors, knowledge-intensive industries, such as TMT and business services, receive the most attention. The recent package of reforms initiated by the Indian Government has also increased interest in the consumer

products and financial services sectors. For instance, American financial services company Citigroup plans to expand its consumer banking operations in India as it aims to serve one million additional urban middle class customers in the next two to three years.²² During 2010-12, the number of projects increased at an average annual growth rate of 57.7% in consumer products and 37.5% in financial services.

Seven of the top 10 investors are from Western Europe

Between 2007 and 2012, Western European countries were the lead investors in India, initiating 2,016 projects worth a total of US\$125.7b (INR6.7t).²³ The ongoing discussions for an India-EU FTA will further improve access to Indian markets.²⁴ While the UK and Germany are the most prominent European investors, other countries, such as France, Italy and Switzerland, are also ramping up their investments.

► **UK:** during the period 2007-12, the UK established 505 projects in India with a total value of US\$41.8b (INR2.2t), ranking third for project numbers and second for value.²⁵ British investment in India is primarily directed toward the services sector (64%) – including business services, TMT, financial services and logistics. India and the UK hold annual foreign office consultations in an effort to develop bilateral relations, and evaluate avenues for greater trade and investment. The 2013 consultation focused on cooperation in education, scientific research, energy and health.²⁶ India is expected to benefit from the UK's expertise in design, consultancy and infrastructure planning, especially in the areas of energy, water treatment, urban regeneration and transport.²⁷ GlaxoSmithKline, Standard Chartered, and Unilever are among the major British companies present in India.

18. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

19. "U.S. Relations With India," *US Department of State website*, www.state.gov, accessed April 2013, *The Economic Times*, via Dow Jones Factiva, ©2013 The Times of India Group.

20. "U.S. Relations With India," *US Department of State website*, www.state.gov, accessed April 2013.

21. "USIBC Chairman's Executive Mission to India: Focusing on Policy Clarity, Investment Climate," *Reuters website*, www.reuters.com, accessed 10 March 2013.

22. "Citigroup to Expand Credit-Card Business in India," *The Wall Street Journal website*, www.online.wsj.com, accessed 18 September 2013.

23. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

24. "Singh, Merkel say EU and India move closer to FTA," *Reuters website*, www.reuters.com, accessed 28 July 2013.

25. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

26. "Foreign Office Consultations between India and the United Kingdom," *Ministry of External Affairs, Government of India website*, www.mea.gov.in, accessed 8 October 2013.

27. "David Cameron urges India to open up to British business," *BBC News website*, www.bbc.co.uk, accessed 13 June 2013.

Interview



See the big picture

Ravneet Gill
CEO, Deutsche Bank India

There are very few economies in the world like India. It enjoys an increasing rate of urbanization, an affluent and growing middle class, and one of the world's largest and youngest workforces. At this juncture, India is a perfect destination for foreign investment, given its undervalued currency, large, high-consumption population, vibrant stock market and stable democracy. In fact, foreign investors appear more upbeat about India than domestic investors.

Many hurdles need to be overcome, but the situation isn't as intractable as it is sometimes made out to be.

First, India has a cash-rich public sector that could lead the revival by spending on projects and sectors that could have a multiplier effect on the economy, with the private sector riding the momentum that gets generated. This will enable the Government to start demonstrating action on the ground.

Second, some good work has already been done, but it has not been highlighted sufficiently. For example, the proportion of the population already covered by the Unique Identification (UID) project is staggering. And the National Rural Employment Guarantee Act rural employment scheme has already shored up rural disposable incomes.

One of the biggest challenges that India will face in the coming years is providing jobs for its young workforce. The working-age population will rise by more than 100 million in each of the next two decades. India needs to strengthen manufacturing, so that more jobs are created and the real economy picks up again; and to persuade manufacturers to set up shop here. While the services sector will continue to flourish, manufacturing needs to become more ingrained in the economy. And the enablers are all there: a large domestic market, strong engineering skills, a proven track record of entrepreneurship and a sound banking system.

Work is also under way on many other fronts. Lifting FDI caps in telecommunications and defense, reducing the oil subsidy through a hike in diesel and petrol prices and the relentless focus

"India is not a stock that you can assess on a quarter-by-quarter basis."

on the twin deficits all reflect the Government's determination to reinvigorate growth. And the DMIC project is a great example of how infrastructure can drive this growth.

In order to catalyze this growth, there is an opportunity for India to engage with a broader constituency of investors. Historically, India's capital has come from the West. Perhaps now it is time to look at the East as well. Further, India needs to broaden its thinking and build more strategic relationships. For instance, look at the UAE. Why can't we form a strategic relationship with the UAE, where we supply them with food grains and they supply us with oil and gas? Global macro trends may also work in India's favor. We have seen the commodity cycle coming off, the growth rate in China slowing down and the US market picking up. India could be a net beneficiary of these trends.

India's banking sector also continues to be a huge opportunity. Only about a third of the country's adults have a formal bank account, so there is plenty of growth potential. When new licenses for private players are granted, and more foreign banks are allowed to enter, value will be created for their backers. Increasing foreign institutional investor limits in public sector banks, opening up M&A activity in the sector and deepening the debt market could benefit the sector further.

While there is no doubt that the corporate sector has suffered, there has been progress in other parts of the economy. We are an impatient nation and people. However, India is not a stock that you can assess on a quarter-by-quarter basis. We have to recognize this, temper our impatience and resist the tendency to be so judgmental.

2012 highlight: the Gulf surprise

123%

increase in projects numbers

project numbers between 2011 and 2012. Oil-rich Middle Eastern countries are shifting their investments from Western countries to economies such as India and China as they search for a higher rate of return on their investments.

Increased interest in the financial services sector, particularly from the UAE and Bahrain, was the key shift in Middle Eastern investment in India in 2012. These were small setups, with an average investment of US\$34.7m (INR1.8m). Dubai-based Alpen Capital, an investment bank, which opened its third office in India in 2012, has also announced plans to establish a fourth office in the country. With their ready supply of skilled workers, the states

India is now on the list of priority markets for Middle Eastern investors. This is evident from the 123.3% year-on-year increase in

of Kerala (25%) and Tamil Nadu (16%) attracted the largest share of financial services projects from the Middle East.

The UAE is the leading Middle Eastern investor in India. It initiated 173 projects in the country between 2007 and 2012, worth US\$16.6b (INR892.4b). In February 2013, India and the UAE also established the "India-UAE High Level Task Force on Investment" to direct investments in areas ranging from infrastructure development to food security. The UAE committed to invest US\$2b (INR107.2b) in India for infrastructure development. Saudi Arabia, Bahrain, Qatar and Kuwait are also seeking investment opportunities in the Indian economy.

Sources: "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012; "Alpen Capital India Private Limited opens an office in Bengaluru," *Alpen Capital website*, www.alpencapital.com, 28 August 2012; "Alpen Capital India Private Limited establishes a presence in Kolkata," *Alpen Capital website*, www.alpencapital.com, 29 January 2013; "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012; "UAE gives a \$2 billion investment boost to India," *The Hindu website*, www.thehindu.com, accessed 16 July 2013.

► **Germany:** between 2007 and 2012, German companies invested US\$24.1b (INR1.3t) in 477 projects.²⁸ The majority of these investments were in manufacturing and heavy industry – specifically, the industrial, automotive and chemical sectors. While German investors favor Pune for industrial projects, they prefer Chennai for automotive investment. For instance, in 2012, BASF committed to establishing a chemical production site, with a total investment of more than US\$150m (INR10b). Meanwhile German automotive component manufacturer Bosch set up a manufacturing facility in Oragadam, Chennai in 2013, with a total investment of US\$192.8m (€150m or INR10.3b).²⁹ German companies are also keen on investing in infrastructure development in India and have expressed interest in megaprojects such as the DMIC, the Chennai-Bengaluru industrial corridor and the Green Energy corridor.³⁰

28. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

29. "Bosch Electrical Drives India inaugurates new plant in Chennai," *Bosch India website*, www.boschindia.com, accessed 9 October 2013; "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0182, as per monthly average for 2013; "BASF to invest in new chemical production site in Dahej, India," *BASF website*, www.basf.com/group/pressrelease, 18 September 2013; "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

30. "Intend to seek greater investment and trade ties with Germany: Singh," *Business Standard website*, www.business-standard.com, accessed 22 July 2013.

Japan lifts heavy industries

Japan was the second-largest investor in India both in terms of FDI projects and jobs created during the period 2007–12. Japanese investment in India is split between services (40.6%) and manufacturing (45.2%). Most Japanese investors chose New Delhi and Mumbai for their services projects, and Bengaluru and Chennai for their manufacturing plants. Specifically, Japanese companies are interested in India's industrial and automotive sectors. During the six years up to 2012, Japan established 225 projects in these sectors, creating a total of 98,708 jobs. Honda, Toyota Motors and Sony are just some of the companies that have made long-term investments in the country.³¹ Japan is also keen to invest in the development of India's infrastructure – the DMIC is a prime example. The relationship between the two nations holds considerable potential but, to progress further, improvements in the tax system and regulatory reforms are required.

The Southeast Asian handshake

Between 2007 and 2012, Southeast Asian countries initiated 150 projects in India worth US\$12.2b (INR655.9b), creating

56,423 jobs.³² Among the Association of Southeast Asian Nations (ASEAN), Singapore was the largest investor, followed by Malaysia and Thailand. In 2012, Singapore's DBS Bank invested US\$94.5m (INR5.1b) of fresh capital to boost its Indian operations.³³

The Indian Government has been constant in its efforts to encourage investment from these nations. An FTA between India and the ASEAN group on services and investment was finalized in December 2012. It is expected to give a boost to the economic relationship between the regions.³⁴ Moreover, the country has already signed the Comprehensive Economic Cooperation Agreements (CECAs) with Malaysia and Singapore, and is currently negotiating CECA terms with Thailand and Indonesia.

32. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

33. "DBS infuses Rs 500 crore to boost India ops," *The Mint*, 3 April 2012, via Dow Jones Factiva, ©2012 HT Media Limited; "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

34. "India-ASEAN conclude free trade agreement in services, investments," *The Economic Times website*, www.articles.economicstimes.indiatimes.com, accessed 15 July 2013.

31. "India benefits from Japan Inc. shift," *The Washington Post website*, www.washingtonpost.com, accessed 15 July 2013.

India's top FDI destinations

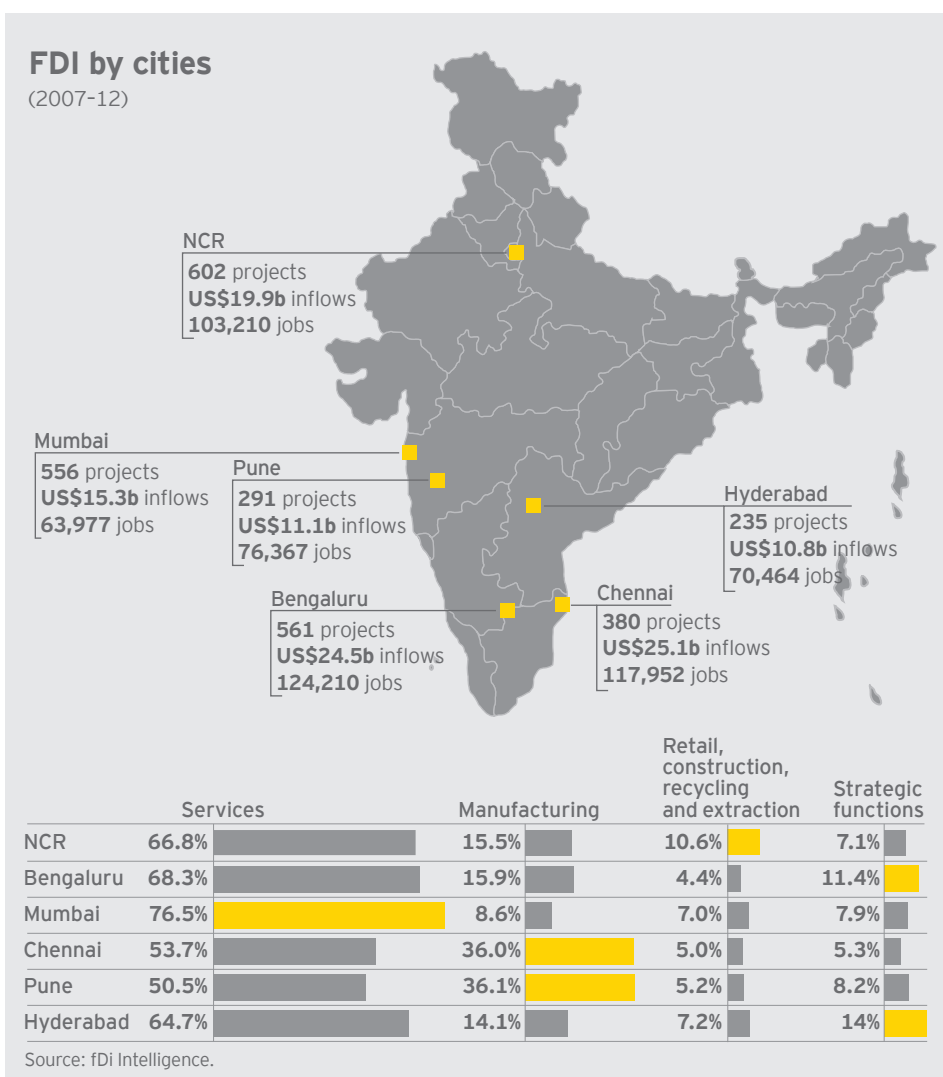
India's FDI landscape is dominated by metropolitan cities. More modern infrastructure and access to large markets are the main reasons for the high FDI inflows in these regions. When deciding where in India to invest, business leaders also consider factors such as the agglomeration effect – the tendency of firms to settle near other economic units because of benefits such as knowledge spillover, the presence of a specialized labor market and a developed supplier network – and the large manufacturing and services base.

NCR

The NCR is one of the largest agglomerations in the world. During the period 2007-12, NCR accounted for 16% of FDI projects and 10.5% of total inflows. Delhi, India's political hub, hosts a number of events of national and international significance that enhance its appeal as an investment destination. The availability of a skilled workforce and a well-developed transportation and telecommunications infrastructure makes NCR a sought-after destination for services projects.

Bengaluru

Bengaluru, the capital city of the state of Karnataka, accounted for 15% of India's FDI projects and 12.9% of the capital investment between 2007 and 2012. Widely known as the IT capital of India, Bengaluru houses more TMT companies than any other Indian destination. An expat-friendly culture, a rich supply of talented and tech-savvy workers and decent English language skills all encourage foreign players to invest here. Such an investor is Huawei Technologies. It recently set up a US\$150m (INR8.1b)³⁵ research and development center in the city.³⁶ Bengaluru is also known as the



biotech hub of India. Out of the 340 biotech companies present in the country, 137 are located in Bengaluru.³⁷ Bengaluru Helix, one of India's biotech clusters, is being developed to create an innovation-driven research environment and promote investment in the biotechnology sector.³⁸ However, power outages and traffic congestion deter

investors. These issues must be addressed quickly for the region to retain the interest of international investors.

Mumbai

Mumbai is India's financial capital. The city attracted 14.8% of FDI projects and 8.1% of total capital inflows between 2007 and 2012. Key financial institutions such as the Reserve Bank of India (RBI), the Bombay Stock Exchange, the National Stock Exchange of India and the corporate

35. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

36. "Huawei to set up R&D centre in Bangalore; invest \$150 million," *The Economic Times website*, www.articles.economicstimes.indiatimes.com, accessed 18 September 2013.

37. "Biotechnology Statistics," *Department of Information Technology, Biotechnology and Science Technology: Government of Karnataka website*, www.karnataka.gov.in, accessed 17 July 2013.

38. "Global Investors' Meet 2012 Karnataka," *Government of Karnataka website*, www.advantagekarnataka.com, accessed May 2012, p.8.



headquarters of major Indian companies are located in the city. When investing in Mumbai, business leaders are targeting business services, TMT and finance in particular. Together, these three sectors accounted for 54.3% of the total projects in Mumbai between 2007 and 2012. A skilled workforce and favorable business environment make it a top destination for services projects.³⁹ This is evidenced by the long-term presence in the city of a number of major financial institutions such as Citigroup, Deutsche Bank, HSBC, J. P. Morgan and Morgan Stanley.

Chennai

Chennai accounted for 10.1% of projects and 13.3% of the total capital investment in India during the period 2007-12. TMT, and the industrial and automotive sectors dominate FDI in the city. Having positioned itself as the automotive hub, Chennai is commonly referred to as the "Detroit of India." The city's appeal as an automotive destination derives from its supportive industrial policy, and the supply of low-wage engineers and factory floor labor.⁴⁰ The presence of two major

39. Sobia Khan, "Mumbai emerges as best city to invest with returns from 12%-19%: Report," *The Economic Times*, 23 May 2012, via Dow Jones Factiva, ©2013 The Times of India Group.
40. "A New Detroit Rises in India's South," *The Wall Street Journal website*, www.wsjonline.com, accessed 20 June 2013.

ports, coupled with excellent road and rail connectivity, has also made Chennai the hub for export-oriented manufacturing industries. The majority of the projects from the US are in the technological sector, whereas most investment from Europe and Japan is directed toward the industrial and automotive sectors. Renault-Nissan, which is aiming to capture a greater share of the Indian automotive market, has recently announced plans to expand its manufacturing facility in Chennai. It is also developing CMF-A (Common Module Family-Affordable) in the city.⁴¹

Pune

Between 2007 and 2012, the city received 7.8% of the total FDI projects in India and 5.9% of the inflows. TMT, heavy industry and automotive are the key sectors for FDI in Pune. While the US is the major source of technological investment, industrial and automotive projects also come from Germany. The technological appeal of Pune relies on the availability of a large talent pool, and the Rajiv Gandhi InfoTech Park, in its Hinjewadi district.

41. "Renault-Nissan aims at 500,000 units a year from Chennai plant," *Business Standard website*, www.business-standard.com, accessed 18 September 2013. "Renault-Nissan confirms new vehicles specifically tailored for growth markets," *The International press website of Renault Group*, www.media.renault.com, accessed 8 October 2013.

Its manufacturing appeal stems from its long manufacturing tradition and the presence of excellent engineering universities.⁴² These factors have attracted investment from multinationals such as General Electric, Leoni and Renault.

Hyderabad

Attracting 6.3% of the projects in India during the period 2007-12, FDI in Hyderabad has been directed mostly toward TMT and business services. This is because of its strong TMT infrastructure and the supply of a skilled English-speaking workforce. Amazon, Cognizant, IBM, Schneider Electric and Shell are some of the foreign companies present in Hyderabad. Last year saw an increase in investment from Asian countries, in particular Japan and China. Recently, Japan's Hitachi Ltd. announced plans to make an incremental investment of US\$25m (INR1.3b)⁴³ and increase headcount to 4,000 in its global delivery center in Hyderabad over the next five years.⁴⁴

42. "Manufacturing in India: The masala Mittelstand," *The Economist*, 11 August 2012, via Dow Jones Factiva, ©2012 The Economist Newspaper Limited.

43. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

44. "Hitachi Consulting to invest \$25 mn," *Business Standard website*, www.business-standard.com, accessed 15 May 2013.

Interview



Greater policy support required

Shashi Mukundan

Regional President and Head of Country, British Petroleum India

Most large emerging markets such as India, Brazil and Russia, are currently facing structural problems, manifested through modest growth and relatively high inflation. India is relatively well placed, with growth projections of close to 5% for 2014, trade and current account deficits narrowing and inflation expected to moderate with fiscal and monetary tightening.

To achieve its stated target of a fiscal deficit of 4.8% of GDP, the Indian Government will need to cut spending and defer payments for the remainder of the year. While these austerity measures will generate a fiscal drag on growth, moderate inflation and increased fiscal responsibility would encourage private investors and, hopefully, allow the central bank to lower benchmark rates to promote investments. This has been a key component of depressed GDP growth in India. While higher FDI limits are a useful step in increasing the space available for investments in India, macroeconomic stability in the form of a consistent and higher growth rate, moderate inflation, stable exchange rate, fiscal responsibility and recognizing sanctity of contracts will be of primary importance for attracting this FDI.

From our perspective, India provides a great combination of “molecules, markets and minds.” Our experience worldwide has proven that “above ground” factors (enabling policies, fiscal incentives) are considerably more important than “below ground” factors. India would be a highly attractive destination for foreign investors if it could get its policy-making and regulatory act in order.

Most authoritative sources (for instance, the Energy Information Administration, the Directorate General of Hydrocarbons, IHS Cambridge Energy Research Associates) point out that even by conservative estimates, India can produce around 100 trillion cubic feet of gas domestically if it can get its policies aligned with the original intent of the New Exploration Licensing Policy and encourage more domestic exploration and production (E&P) activity. This represents US\$1t in terms of avoided LNG imports – the prize is too large for India to ignore and fritter away. Tapping India’s hydrocarbon potential will require an unprecedented buildup of technology, skills and capital. The above ground factors will decide if India can produce more hydrocarbons domestically. In the recent past, we have seen that sanctity

“India would be a highly attractive destination for foreign investors if it could get its policy-making and regulatory act in order.”

of contracts has been repeatedly challenged, market price for domestically produced gas has been denied – despite being promised in contracts, incentives such as tax holidays are arbitrarily scrapped and various approvals have been held up for years. This has resulted in domestic E&P activity slowing down due to poor investor confidence. The stated intent has been to protect government revenues without realizing that stalled activity would mean no revenues at all. To tap this opportunity, the Government needs to maintain sanctity of contracts, promote domestic E&P activity and create an investment-friendly and economically attractive fiscal regime. Companies, on their part, need to be patient, persevere and maintain unassailable compliance with the rule of law.

2013 update

Investments delayed but prospects brighten up

In the first nine months of 2013, India attracted 310 projects, which were worth US\$12.3b (INR702.9b)⁴⁵ and created 72,928 jobs. These figures are lower than those for the same period of 2012. This dip can be attributed to global economic uncertainty, India's current account deficit, and internal governance factors. The recent depreciation of the rupee has also hurt investor sentiment about the country. However, the lower figures may represent a delay in investment rather than a permanent decline in inflows.⁴⁶

The country's FDI prospects remain positive. Foreign inflows in the services and manufacturing sectors are expected to accelerate, partly as the result of countries such as Japan and Korea establishing country-specific industrial zones in India. The prospects for foreign investment are also brighter as a result of the relaxation of FDI limits in a range of sectors.

Tradition continues

In the first nine months of 2013, TMT and industrials remained the top two sectors in terms of project volume.

A noticeable change, however, was that investors – mostly from Asia-Pacific and the Middle East – showed increasing interest in infrastructure, which was the largest sector in terms of FDI value in the first nine months of 2013. And infrastructure's share of total projects also increased from 5.9% during the period 2007-12 to 11% in the first three quarters of 2013. This increase can be credited to India's planned infrastructure corridors, and to the roadshows that the Indian Finance Minister recently conducted in Japan, Germany and Singapore.⁴⁷

However, the automotive sector slowed. Its share of projects dropped from 8.4% in the period 2007-12 to 4.8% in the first nine months of 2013. This is mainly because Japanese and German companies made fewer investments.

45. "Currency converter," Oanda website, www.oanda.com, accessed 26 November 2013, exchange rate used INR1 = US\$0.0175, as per monthly average for first nine months of 2013.

46. "Foreign investors waiting for polls to invest in India: Fitch," *The Economic Times website*, www.articles.economicstimes.indiatimes.com, accessed 15 August 2013.

47. "P Chidambaram to hold road shows in Canada, US next week to attract investments," *The Economic Times website*, www.articles.economicstimes.indiatimes.com, accessed 14 July 2013.

FDI by sector

Rank	Sectors	Share in FDI 9M13		
		Number of projects (% share)	Capital investment (% share)	Jobs created (% share)
1	TMT	25.2%	15.5%	23.8%
2	Industrials	12.6%	7.5%	12.6%
3	Infrastructure	11.0%	20.9%	18.4%
4	Consumer goods	9.7%	8.9%	11.9%
5	Financial services	9.4%	10.4%	6.7%
6	Business services	8.7%	3.4%	5.0%
7	Logistics	7.7%	12.7%	3.9%
8	Chemicals	6.1%	3.4%	1.8%
9	Automotive	4.8%	8.9%	9.9%
10	Life sciences	2.3%	3.8%	4.8%
	Other	2.5%	4.6%	1.2%
	Total	100.0%	100.0%	100.0%

Source: fDi Intelligence.

Bengaluru, Mumbai and NCR retain their lead

In the first nine months of 2013, Bengaluru, Mumbai and NCR remained the top three Indian FDI destinations; but tier-II cities, such as Thiruvananthapuram, Sanand (near Ahmedabad), Mangalore and Manesar (near NCR), also captured the interest of foreign investors.

Little change in FDI sources

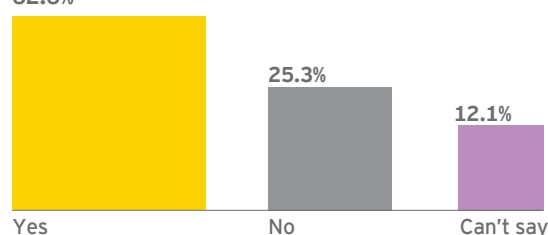
In the first nine months of 2013, the US and Western Europe were the main sources of foreign investment – as they had been in the same period in 2012. Out of the projects from Western Europe, the share of projects from France, Switzerland and Luxembourg increased, while the share of projects from the UK and Germany fell. In the first three-quarters of 2013, the UAE emerged as the fourth-largest investor, with projects in infrastructure and financial services.

In a prominent spot among emerging markets

Emerging market strategy

Does your company have an emerging market strategy?

62.6%



Source: EY's 2014 India attractiveness survey (total respondents: 502).

▶ Respondents who have an emerging market strategy

India has a strong foothold in investors' emerging market strategies, despite the recent slowdown in economic activity. However, these investment plans vary across sectors. TMT, infrastructure and financial services companies plan to invest a smaller amount than business services investors, who plan to allocate more than 20% of their emerging market capital to India.

India's medium-term positioning in RGMs

Global business leaders plan to invest in the Indian economy on account of its strong macroeconomic fundamentals and rising private expenditure. The World Bank's report *Global Development Horizons (GDH) 2013: Capital of the Future*, predicts that Brazil, India and Russia will, together, account for 13% of global investment by 2030 – more than that of the US.

Investors' capital allocation plans

What is the approximate investment capital allocation for India ?

Percentage of respondents	Percentage of total capital allocation					Can't say
	0-5%	5-10%	10-20%	>20%		
Total	24.0%	15.0%	10.5%	19.5%	31.0%	
Financial services	43.9%	15.6%	14.2%	0.0%	26.3%	
Infrastructure	30.3%	14.1%	13.0%	19.9%	22.7%	
Retail	29.4%	24.2%	22.5%	4.8%	19.1%	
Industrials	28.6%	21.6%	6.5%	14.2%	29.1%	
Consumer products	21.5%	13.2%	5.0%	11.3%	49.0%	
TMT	21.4%	10.4%	13.8%	7.3%	47.1%	
Business services	2.4%	0.0%	0.0%	56.0%	41.6%	

Source: EY's 2014 India attractiveness survey (total respondents: 314).

India's growth to accelerate in the medium term

GDP growth rates – rapid-growth markets

2012		2013		2014		2015	
Ghana	7.9%	China	7.4%	China	7.1%	China	7.3%
China	7.7%	Ghana	6.4%	Kazakhstan	6.5%	Kazakhstan	7.1%
Nigeria	6.5%	Nigeria	6.3%	Nigeria	6.1%	Vietnam	6.4%
Indonesia	6.2%	Qatar	5.8%	Ghana	6.1%	Qatar	6.1%
Qatar	6.2%	Indonesia	5.6%	Qatar	6.0%	India	5.9%
Chile	5.6%	Kazakhstan	5.5%	Indonesia	5.4%	Indonesia	5.9%
Saudi Arabia	5.1%	Vietnam	4.9%	Vietnam	5.2%	Ghana	5.7%
India	5.1%	Chile	4.6%	Chile	4.9%	Nigeria	5.5%
Vietnam	5.0%	India	4.1%	India	4.5%	Chile	5.1%
Kazakhstan	5.0%	Saudi Arabia	4.0%	Saudi Arabia	4.3%	Saudi Arabia	4.3%





Source: EY Rapid-Growth Markets Forecast, EY, July 2013.

Attraction of the domestic market

Business leaders choose to invest in India because they wish to serve its large domestic market. India's consumption-to-GDP was 60% in 2012, higher than in Brazil and Russia.⁴⁸ US-based fast food chain Yum Inc. plans to open more restaurants in India. It is investing US\$100m (INR5.4b)⁴⁹ over the next four to five years to cater for rising consumption levels.⁵⁰

Planned investment activities for India

What is the nature of the business activity you are planning in India ?

Manufacturing and services for the Indian market	42.5%	
Manufacturing for global market	30.8%	
Sales and marketing office	14.8%	
Headquarters	5.0%	
Research center and design unit	5.0%	
Offshoring and outsourcing	4.4%	
Warehouse and logistics center	3.4%	
Education and training	1.6%	
Other	2.1%	
Can't say	13.0%	

Source: EY's 2014 India attractiveness survey (total respondents: 267, group considering entering India over the next year; respondents selected more than one possible answer).

A large percentage of respondents, particularly from major industrials and consumer products companies, also see India as their key export hub. They are attracted by India's proximity to Southeast Asia, the Middle East and Africa, and its cost advantage. One key example of a manufacturer harnessing India's cost advantage to supply the global market is American

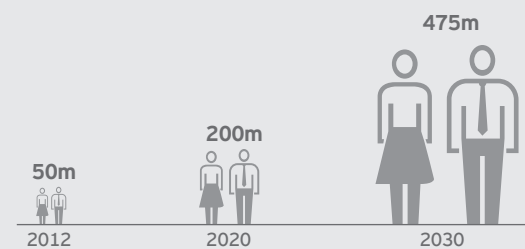
48. "Household final consumption expenditure, etc. (% of GDP)," *The World Bank website*, www.data.worldbank.org, accessed 29 August 2013.

49. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

50. "Yum Plans to Spend \$100 Million in India to Expand Restaurants," *Bloomberg website*, www.bloomberg.com, accessed 7 August 2013.

India's sweet spot

India's global middle class



Source: *Hitting the sweet spot: the growth of the middle class in emerging markets*, EY, April 2013.

India's growing middle class is helping to drive the success of companies that operate in the country. Its global middle class population (defined as people earning US\$10-US\$100, i.e., INR537.6-INR5,376.4 per day), is around 50 million people, or 5% of its population.

It is projected that this group will grow steadily over the next decade, adding more people than the Chinese to the global middle class after 2027.

automaker Ford, which exports the Figo model from its Chennai plant to 37 international markets. It also plans to export the EcoSport model from its India-based facilities.⁵¹ UK-based Tesco has also announced plans to set up an Indian subsidiary to source processed foods for its global stores.⁵²

51. "Ford Motors to increase car exports out of India: CEO," *Business Standard website*, www.business-standard.com, accessed 18 June 2013; "Ford Celebrates Figo's 300,000 Milestone with Series of Dealership Openings in August," *Ford India website*, www.india.ford.com, 6 August 2013.

52. "TESCO to open Indian subsidiary for farm output and fruits," *The Hindu website*, www.thehindu.com, accessed 18 September 2013.

Interview



Look for the long term

Vijay Sood

Executive Director, Vice President, General Mills

Despite some recent challenges, India's fundamental strengths are still intact. It has a large and growing consumer class and strong democratic institutions. Over a ten-year period, India's middle class has grown by 350 million. No other country can match that pace of growth. We are functioning in a competitive world in which countries are seeking to attract the same investments.

While India is still an attractive market, the Government needs to make some changes. We need to introduce reforms that help to make it convenient for people who want to invest here. We need to build roads, airports and ports – and make it easier to do business. At the present time, India is not the friendliest place to do business. Proper governance is extremely important. The Government also needs to put in place reforms to liberalize business conditions. The recent relaxation of FDI is a step in the right direction, but it is not enough. The reforms have a number of uncertainties. These should have been put in place years ago. Nevertheless, they now need to be accompanied by several more steps. India's processed foods industry is at a very nascent stage of development. At a consumer value

of about US\$30b, it is dwarfed by markets such as China and Brazil at US\$150b and US\$120b, respectively. Nevertheless, it is an attractive segment with several opportunities. Consumers are looking at value-added products, and we can leverage this demand. That is why we – and our competitors – are here.

However, the market faces some challenges too. The largest is a lack of infrastructure, which makes it difficult to procure and distribute. A second challenge is the excessive role of government in business.

Coming back to our industry, everyone needs food, so we have great potential. Two things are important in our market: affordability and availability. Affordability is improving as the economy is growing and consumption is rising. Availability, on the other hand, poses a large infrastructure challenge. We have to find a cost-effective way of reaching out to people. In such a scenario, players have to focus on having a relevant and affordable product portfolio; come up with an appropriate distribution strategy; and enter this market with a long-term perspective.

“Players have to focus on having a relevant and affordable product portfolio; come up with an appropriate distribution strategy; and enter this market with a long-term perspective.”

Current investors remain certain

The majority of respondents are considering increasing their presence in India. However, 160 out of the 502 respondents are not planning any investment in India, compared with just 61 out of 382 respondents in the 2012 survey. This growing reluctance to invest has been partly caused by regulatory hurdles, a lack of adequate infrastructure and policy inaction. In most cases, investment is deferred until after the 2014 parliamentary elections. This approach gives them time to analyze the consequences of ongoing reforms.

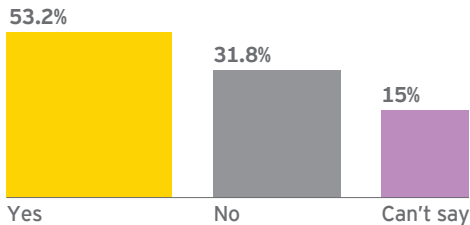
In fact, when respondents were questioned about their reasons for not investing in India, more than six out of ten revealed that it was because either they did not have any short-term expansion plans or they had no overseas expansion plans at all.

Of the respondents who are looking to invest in India, the majority are planning to expand their operations. One company with such plans is PepsiCo. In November 2013, the global food and beverage company announced its intention to invest US\$5.5b (INR330b) in the country by 2020. With this investment, it aims to expand its product portfolio; increase its manufacturing capacity; and enhance its delivery infrastructure, with a special focus on rural markets.⁵³ Likewise, UK-based hospitality company Whitbread is planning to expand its presence in India by opening 200 more outlets of its coffee shop brand Costa Coffee, and is committing to a total investment of US\$36.4m (INR2b) by 2015.⁵⁴

53. "PepsiCo Announces Targeted Investment of Rs. 33,000 Crores in India by 2020," *PepsiCo website*, www.pepsico.com, 11 November 2013; "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0182, as per monthly average for 2013.
54. "Costa Coffee to open 200 more stores in India by 2015," *The Business Standard website*, www.business-standard.com, accessed 8 October 2013; "Currency converter," *Oanda website*, accessed 6 September 2013, exchange rate used INR1 = US\$0.0182, as per monthly average for 2013.

Investors' immediate plans

Is your company considering entering or increasing existing operations in India over the next year?



Source: EY's 2014 India attractiveness survey (total respondents: 502).

Respondents who were planning to invest

Types of investment

How are you planning to invest?

Expand operations or increase labor force	57.9%	<div style="width: 57.9%;"></div>
Acquisition	8.8%	<div style="width: 8.8%;"></div>
Joint venture or alliance	7.1%	<div style="width: 7.1%;"></div>
Greenfield investments	4.4%	<div style="width: 4.4%;"></div>
License arrangement with local company	3.1%	<div style="width: 3.1%;"></div>
Franchise arrangement	0.8%	<div style="width: 0.8%;"></div>
Other	0.5%	<div style="width: 0.5%;"></div>
Can't say	17.4%	<div style="width: 17.4%;"></div>

Source: EY's 2014 India attractiveness survey (total respondents: 206).

Respondents who were not planning to invest

Reasons for no investment plans in India

What is the main factor behind your decision not to enter or increase operations in India over the next year?

No short-term expansion plans	42.4%	<div style="width: 42.4%;"></div>
No overseas expansion plan	19.2%	<div style="width: 19.2%;"></div>
Focus on other areas and markets	5.7%	<div style="width: 5.7%;"></div>
Limited consumer demand	4.8%	<div style="width: 4.8%;"></div>
Already invested in India	2.4%	<div style="width: 2.4%;"></div>
Others	15.6%	<div style="width: 15.6%;"></div>
Can't say	9.9%	<div style="width: 9.9%;"></div>

Source: EY's 2014 India attractiveness survey (total respondents: 160).

What it means for businesses

India's fundamentals continue to be strong. By 2015, the Indian economy is expected to be worth US\$2.4t (INR129t) and the country's population is set to reach 1.3 billion. This will lead to huge growth opportunities for foreign investors, who will be able to tap the domestic market and position India as their regional exports hub.

In addition, new opportunities are emerging across the country at all income levels. Recent years have seen increasing consumer spending in rural areas, a rising number of Indian millionaires, the empowerment of female employees and the emergence of tier-II and tier-III cities. But the real challenges lie in routes to market, particularly in the rural market. The cost of reach and activation is disproportionately high in rural markets for various sectors – including consumer products, telecoms and financial services. As a result, companies need to be very clear where and how to play in rural markets, by identifying and focusing on current and future profit pools.

Our survey indicates that business leaders not already established in India have developed a "wait-and-watch" attitude toward investment there. However, taking into account the country's changing dynamics, opportunities are emerging for investors to adopt a targeted, tailored strategy for successful entry into the Indian market – and indeed to ensure a sustainable future in the country.

Reforms to liberalize the economy, announced in 2012 and 2013, have created a supportive policy environment for FDI. Foreign investors can now enter India by becoming majority shareholders, without having to partner up with local businesses in sectors such as retail and broadcasting. Even though some sectors, such as insurance, remain in a joint venture mode, investors will still be able to tap under-penetrated markets. This will present a great opportunity to establish a first-mover advantage and explore fresh markets in India, as the economy continues to open up to FDI.



Perception

How India is viewed by foreign investors

p.33
Competition from
all sides

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Labor, skills and a strong
domestic market drive
investment

p.38
Infrastructure bottlenecks
and a restrictive business
environment



Image: Mumbai.

Maintaining confidence

India's strengths, weaknesses and main competitors.

Competition from all sides

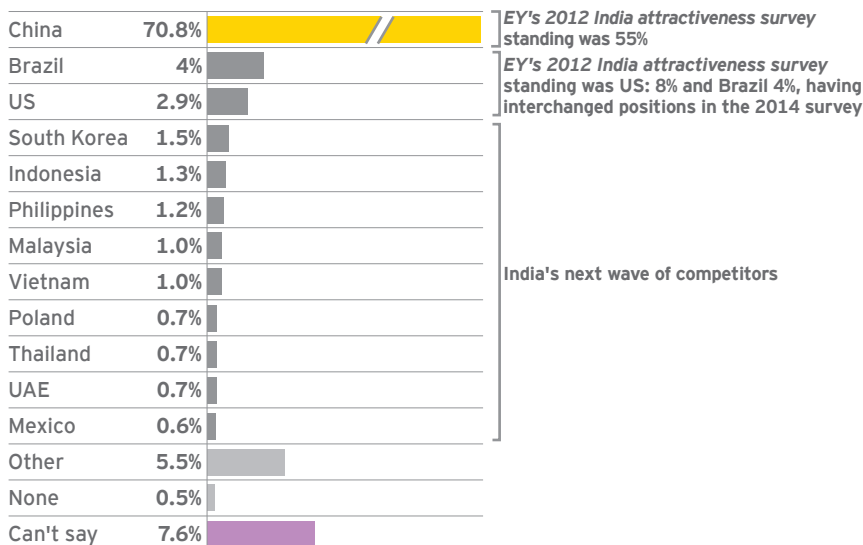
As the global picture of promising investment destinations continues to broaden, the question that every international investor asks – “Where should I invest?” – has become increasingly difficult to answer. While China has always been India's biggest competitor for FDI, new markets such as Indonesia, the Philippines and Thailand are now being considered as serious alternatives.

India and China at arm's length

India and China are competing keenly to grasp a greater share of world trade and investment. Many observers believe that India and China have taken different paths to economic growth. While China has enjoyed its status as the world's premier manufacturing destination and has benefited from exports, India has been the favored destination for investment in services.

India's competitive position for FDI

From a general point of view, in your opinion, which country is India's main competitor in terms of attractiveness?



Source: EY's 2014 India attractiveness survey (total respondents: 502).

Key findings

86% of respondents consider India's labor costs as its most attractive asset.

71% see China as India's biggest competitor for investment.

43% say that their investment plans are independent of credit agencies' ratings.

4 main challenges emerge: infrastructure, the business environment, FDI regulations and taxation policy.

China is the manufacturing powerhouse of the world because of its developed infrastructure, pro-FDI policies and low-cost labor. It is also ahead of India on the majority of macroeconomic and social indicators. However, China's population is set to age, whereas India, with a median age of 29, will be the youngest country in the world by 2020.⁵⁵ India also scores above China in terms of its democratic government and its significant proportion of English-speaking people. Moreover, minimum wages in China have increased over the years, and its cost advantage has been reduced.⁵⁶ Also, foreign investors are now concerned about the insufficient transparency in China.

The next wave of competitors

New competitors are providing tough competition for the Brazil, Russia, India and China (BRIC) economies and are eyeing increased shares of global output and foreign investment.

The Philippines, in particular, is competing vigorously with India in the business process outsourcing (BPO) industry. It is competitive on cost and boasts a skilled and proficient English-speaking population.

The world's fourth most-populous nation, **Indonesia**, also features among India's new-found competitors. It boasts a strong

55. "India to be a youngest nation by 2020," *The Hindu website*, www.thehindu.com, accessed 27 July 2013.
 56. "China to Boost Minimum Wage 20% Annually for Five Years, Morning Post Says," *Bloomberg website*, www.bloomberg.com, accessed 7 August 2013.

Country-wise real GDP growth rates

(2012-14)

	2012	2013E*	2014E*
Philippines	6.8%	6.8%	6.0%
Indonesia	6.2%	5.6%	5.4%
Vietnam	5.0%	4.9%	5.2%
Malaysia	5.6%	4.4%	4.8%
India	5.1%	4.1%	4.5%
Thailand	6.5%	3.0%	4.4%
Mexico	3.6%	1.2%	3.9%
UAE	4.4%	4.1%	3.9%
South Korea	2.0%	2.2%	2.9%
Poland	2.0%	1.1%	2.4%

* Estimate
 Sources: *EY Rapid-Growth Markets Forecast*, EY, October 2013; *World Economic Outlook*, IMF, October 2013

macroeconomic situation, a considerable domestic market and the lowest unit labor costs in the Asia-Pacific region. In fact, Indonesia is set to increase its share of exports to the US and Europe, especially in textiles, agricultural goods, engineering products, electronics and chemicals.

Vietnam holds great promise. It stands at the 99th position in the World Bank's *Ease of Doing Business 2014* rankings, much higher than India's 134th.⁵⁷ In addition, a substantial population base and proximity to China also work in its favor. The country, however, suffers from high inflation, a considerable public debt and rising corruption levels.

57. "Economy rankings," *Doing business website*, www.doingbusiness.org, accessed 27 November 2013.

Malaysia is emerging as one of the world's most technologically developed countries and, as a result, is becoming a popular destination for offshore operations. **Thailand** competes with India for gems and jewelry.

South Korea is developing as a business hub for Asia and neighboring countries, and **Mexico** is gaining significance due to its fast-growing retail, chemical and tourism industries. **UAE** also benefits from its booming tourism industry, developed infrastructure and expat-friendly culture. **Poland**, on the other hand, is benefiting from its central location in Europe and its 38-million strong consumer market.⁵⁸

58. "Why Poland," *Invest in Poland website*, www.paiz.gov.pl, accessed 29 August 2013.

Interview



Opportunities and challenges

Han Chang Hwan

Executive Vice President, Hyundai Motor Company

India definitely has more potential than other fast-growing markets, mainly because it has a larger domestic market. In the next 5 to 10 years, the burgeoning consumer class will undoubtedly be a critical growth driver. Growth will be led by the automotive and IT sectors. Indian consumers are waiting for new technology, be it for smartphones or for automobiles. In India, consumers' desire to purchase new products is also increasing.

However, growth was hit in 2013, and I have some concerns about whether India can overcome its current difficulties and grow quickly again. However, it continues to be competitive in terms of labor, with the workforce offering strong language skills and a good attitude. The fiscal deficit will impact upon FDI. The answer to whether the fiscal deficit will affect our investment decisions lies in the market itself. If the market requires investment, we are ready to invest. But we are trying to understand how the Indian market will grow. We will follow the direction that the market takes. The recent relaxation in FDI limits is a welcome

move for companies like ours. Opening up the market and easing the process are good steps that will drive economic growth.

India's automotive sector is really attractive to foreign investors. The market is huge. One area of concern is the slower growth after 20 years of continuous fast growth. We are all trying to understand the causes of the slowdown and how the economy will overcome it. We are thus eagerly waiting for some kind of support from the Government. Manufacturers need policy support from government, such as reducing excise tax and constructing a consistent policy for fuel, to make it easier to invest in India.

A high level of competition is among the main challenges for investors that are considering setting up operations in the country. Brands from around the world are ready to enter the Indian market. The ongoing price war is making cost reduction an important task for companies. In such a scenario, the automotive companies are trying to reduce their expenditure and focus on localizing their products. Also,

“Brands from around the world are ready to enter the Indian market.”

the shrinking market is creating additional challenges for automotive companies. Nevertheless, India continues to be one of the biggest markets and still offers several advantages for companies.

At the moment, India's urban market is bigger than the rural market, but one cannot underestimate the potential of the latter. The growth potential of the rural, tier-II and tier-III markets is enormous. Hyundai, in fact, has a special team to cater to these rural markets. We are focusing closely on increasing market share, improving after sales services and providing facilities in rural markets. These tier-II and tier-III markets are becoming more important than the tier-I markets in which we are already established.

Labor, skills and a strong domestic market drive investment

► Labor force

India is set to benefit from a demographic dividend. UNCTAD estimates that the labor force in India currently stands at 498.7 million and is expected to rise to 556.8 million by 2020. This growth brings a significant competitive advantage.⁵⁹ At US\$3.1 (INR166.7)⁶⁰ per hour in 2012, wage costs in India are also competitive. The equivalent rate in Brazil is US\$11.2 and in Russia it is US\$5.8.⁶¹ While China is preferred for mass production, India is seen as a better destination for customization – which requires superior engineering skills. However, to make the most of this advantage, India needs to improve its labor regulations, create

more jobs in the manufacturing sector and enhance the skills of millions of its workers.

► The domestic market

India is forecast to become one of the largest consumer markets in the world by 2025, with consumer spending likely to rise from US\$900b (INR48.4t) today to US\$3.6t (INR193.5t) by 2020, according to a report by the Confederation of Indian Industry.⁶² This growth, driven by factors such as the growing middle class, rapid urbanization and improved access to credit, is set to boost demand and productivity. Although the middle class is expected to be the most lucrative segment, the luxury market is also forecast to

59. United Nations Conference on Trade and Development (UNCTAD) website, www.unctadstat.org, accessed 29 August 2013.

60. "Currency converter," Oanda website, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

61. "Oxford Economics Global data services," Oxford Economics, accessed 9 October 2013.

62. *Winning with uncertainty*, The Confederation of Indian Industry, June 2013, p.3; "Currency converter," Oanda website, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

India's attractiveness pillars

Please rate the following parameters for investment in India as very, fairly, little or not at all attractive.

Parameters	Attractive			Not at all attractive	Can't say
	Very	Fairly	Little		
Labor advantage					
► Local labor costs	45.8%	40.3%	8.0%	2.0%	3.7%
► Local labor skills	31.8%	45.8%	13.4%	2.0%	7.0%
Domestic market	44.4%	37.7%	10.1%	3.3%	4.5%
Strong education system and availability of skilled services workforce					
► Availability of educated workforce	41.7%	37.4%	12.0%	2.3%	6.6%
► Strong business and management education system	34.4%	46.0%	10.6%	2.4%	6.6%
Sound telecommunications infrastructure	32.7%	41.9%	14.1%	4.5%	6.8%
Entrepreneurial culture	24.9%	47.5%	14.5%	2.1%	11.0%
Research and development quality and innovation	21.2%	47.7%	19.1%	4.9%	7.1%
Macroeconomic stability	18.0%	52.3%	20.5%	3.8%	5.4%
Foreign direct investment policy	12.4%	47.3%	21.3%	5.3%	13.6%
Transport and logistic infrastructure	12.3%	37.4%	32.6%	12.5%	5.3%
Political and social environment	12.0%	47.2%	30.3%	6.2%	4.3%
Corporate taxation	10.8%	40.1%	23.4%	7.3%	18.4%
Business environment					
► Ease of doing business	17.5%	39.5%	26.0%	9.4%	7.6%
► Flexibility of labor law	15.5%	41.9%	20.4%	5.9%	16.3%
► Legislative and administrative environment	8.5%	37.6%	31.1%	11.1%	11.7%

Source: EY's 2014 India attractiveness survey (total respondents: 502).

The workforce: India's winning edge

grow at an annual rate of 25% by 2015, according to a recent survey conducted by the Associated Chambers of Commerce and Industry of India. This growth will not be limited to metropolitan cities. More and more tier-II and tier-III cities are now experiencing a rise in purchasing power and brand awareness levels.⁶³

Businesses present in India have a better perception of the domestic market than those that are not present. Of the business leaders present in the country, 88.9% rate it as attractive. This compares with 54.7% for those not present.

► Availability of an educated workforce backed by a strong education system

India's education system is among the largest in the world, with around 1.4m schools, 700 universities and 35,000 colleges.⁶⁴ The country also has the third-largest higher education system in terms of the number of enrollments, after China and the US.⁶⁵ The education sector gets significant attention from the Government. A sum of US\$83.7b (INR4.5t)⁶⁶ is allocated for education in the Government's 12th five-year plan.⁶⁷ Also, in September 2013, the Government allowed foreign universities to set up campuses and provide degrees independently in India. This will offer Indian students access to quality education and boost FDI in the country.⁶⁸ Indian graduates have computer and internet skills that make them much sought after in the service industry.

Among respondents, only 53.6% of those not established in India saw the quality of management and business education as an attractive feature. However, among those already established in the country, this figure rises to 87%. So there is a clear perception gap.

Building competencies in:

► Telecommunications infrastructure

Our survey found that business executives believe India has a sound telecommunications infrastructure. The effectiveness of India's telecoms infrastructure is demonstrated by its growing telecom tower base and increasing demand from subscribers. According to the

63. Kumud Das, "Luxury market in India may touch \$15bn in 2 years," *The Times of India*, 6 February 2013, via Dow Jones Factiva, ©2013 The Times of India Group. "Indian Luxury Market Holds Strong despite Global Economic Downturn," *ASSOCHAM website*, www.assochem.org, accessed 8 October 2013.

64. "Higher education in India at a glance," *University Grants Commission*, June 2013, p.2; "Education Statistics at a Glance," *Ministry of Human Resource Development*; "Higher Education in India at a glance," *University Grants Commission*; "All India Council for Technical Education Approval Process Handbook," *All India Council for Technical Education*.

65. Rupali Mukherjee, "Foreign investment needed to transform education sector: Report," *The Times of India*, 21 November 2012, via Dow Jones Factiva, ©2012 The Times of India Group

66. "Twelfth Five Year Plan (2012-2017): Faster, More Inclusive and Sustainable Growth," *Volume 1, Planning Commission*, Government of India, March 2013, p.82; "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

67. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

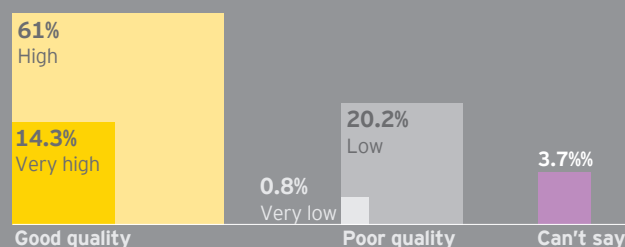
68. "Foreign varities get independent access to India," *Live Mint website*, www.livemint.com, accessed 28 October 2013.

Respondents to EY's 2014 India attractiveness survey were encouraged by the quality and productivity of India's workforce. The significant employable workforce is among India's strongest features. But a large number of workers require appropriate education and training. Although India has better productivity growth rates than Russia, Turkey, Mexico and Brazil, it falls behind them in terms of actual dollar value. To increase its productivity, the country needs to create more skilled jobs in innovation. In fact, it is estimated that the country will create up to 500 million jobs in the next decade, 75% of which will be skilled.

Source: *Output, Labor and Labor Productivity Country Details*, The Conference Board Total Economy Database, January 2013.

Rating India's workforce

How would you rate the quality and productivity of India's workforce ?



Source: EY's 2014 India attractiveness survey (total respondents: 502).

Telecom Regulatory Authority of India, teledensity stood at 73.3% as of May 2013.⁶⁹ The country stood 68th out of 144 countries on the WEF's *Networked Readiness Index 2013*. The Index measures a country's ability to take the opportunities offered by TMT.⁷⁰

Moreover, the unified license guidelines (announced in August 2013),⁷¹ the removal of the sector FDI cap and the proposed announcement of merger and acquisition (M&A) guidelines in the near future are expected to strengthen the country's telecom infrastructure. However, India continues to suffer from regulatory uncertainty, corruption and the high cost of spectrum.

► Entrepreneurial and innovative culture

With the rising number of incubators, angel networks and early-stage venture capital funds, the country's start-up ecosystem is developing gradually. According to the Planning Commission's report on Angel Investment & Early Stage Venture Capital in India, the country was home to 120 incubators in 2012, most of which were government-sponsored and affiliated to educational institutions. Institutes such as the Centre for Innovation, Incubation and Entrepreneurship (CIIE), the Entrepreneurship Development Institute of India (EDI), start-up villages and a strong network of business incubators also promote a culture of entrepreneurship.

69. "Telecom subscription data as on 30 May 2013," *Telecom Regulatory Authority of India website*, www.trai.gov.in, accessed on 6 August 2013.

70. *The Global Technology Report 2013*, World Economic Forum, March 2013, p. 23.

71. "India Issues Unified Telecom-Licensing Rules," *The Wall Street Journal website*, www.online.wsj.com, accessed 8 October 2013.

Infrastructure bottlenecks and a restrictive business environment

► Transport and logistics infrastructure

The supply of transport, energy and logistics infrastructure is insufficient to support the 7%-8% growth expected in the future. Factories across the country suffer power shortages, making backup generators a necessity for businesses, and adding to costs. The WEF's *Global Competitiveness report 2013-14* ranks India 85th out of 148 economies for the quality of overall infrastructure, 84th for road infrastructure and 61st for airport infrastructure.⁷²

► Operating environment

Corruption, delays in approval, and complex fiscal and legal obligations discourage foreign investors from establishing a base in India. The country stood 132nd on the World Bank's *Doing business 2013* rankings, out of a total of 185 economies.⁷³ The report ranks India among the lowest for dealing with construction permits,

starting a business, enforcing contracts and paying taxes. However, India scores well on access to credit and investor protection parameters.

► Corporate taxation

India's taxation policies remain complex, despite government efforts to improve tax design and administration. Investors demand a simplified and integrated system. The Finance Act, passed in 2012, made amendments to the Income Tax Act 1961. It introduced GAAR (a set of general rules to tackle tax avoidance) and the taxation of indirect transfers of assets with a 50-year retrospective effect.⁷⁴ The latter allowed the Government to levy capital gains tax on all offshore indirect transfer of assets, with a retroactive effect from 1962. This received a frosty reception from the business community.

72. *The Global Competitiveness Report 2013-2014*, World Economic Forum, August 2013, p. 217.
73. "India," *Doing Business website*, www.doingbusiness.org, accessed 25 May 2013.

74. *Global Tax Policy and Controversy Briefing*, EY, November 2012, p.94.

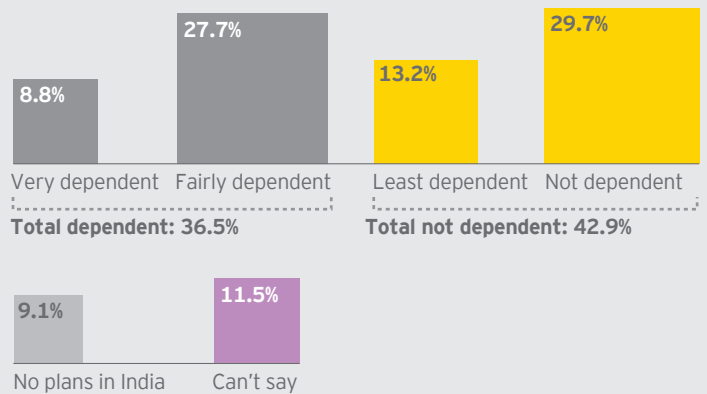
Credit ratings and investment: little correlation

Recent warnings about India's ratings have chipped away at confidence in the country's economy. Some perceived that the Government and corporate entities would have difficulty raising foreign loans and would end up paying increased interest rates. However, in June 2013, Fitch upgraded India's outlook from "negative" to "stable" in the light of measures taken by the Government. These include containing the budget deficit at 4.9% in FY13, down from 5.7% in FY12; as well as some progress, albeit limited, toward addressing structural issues surrounding investment and economic growth, such as cutting subsidies and enacting FDI reforms.

Fewer than 1 in 10 respondents claimed that their investment plans were very dependent on credit rating agencies' ratings for India. Certain misjudgments by credit rating agencies in the past emphasize that ratings and the agencies' outlooks cannot be used as the sole criterion for investment-related decisions. Nevertheless, the importance of credit rating agencies should not be underestimated.

Correlation between credit ratings and investment plans

How dependent are your investment plans in India on credit agencies' ratings?



Source: EY's 2014 India attractiveness survey (total respondents: 502).

What it means for businesses

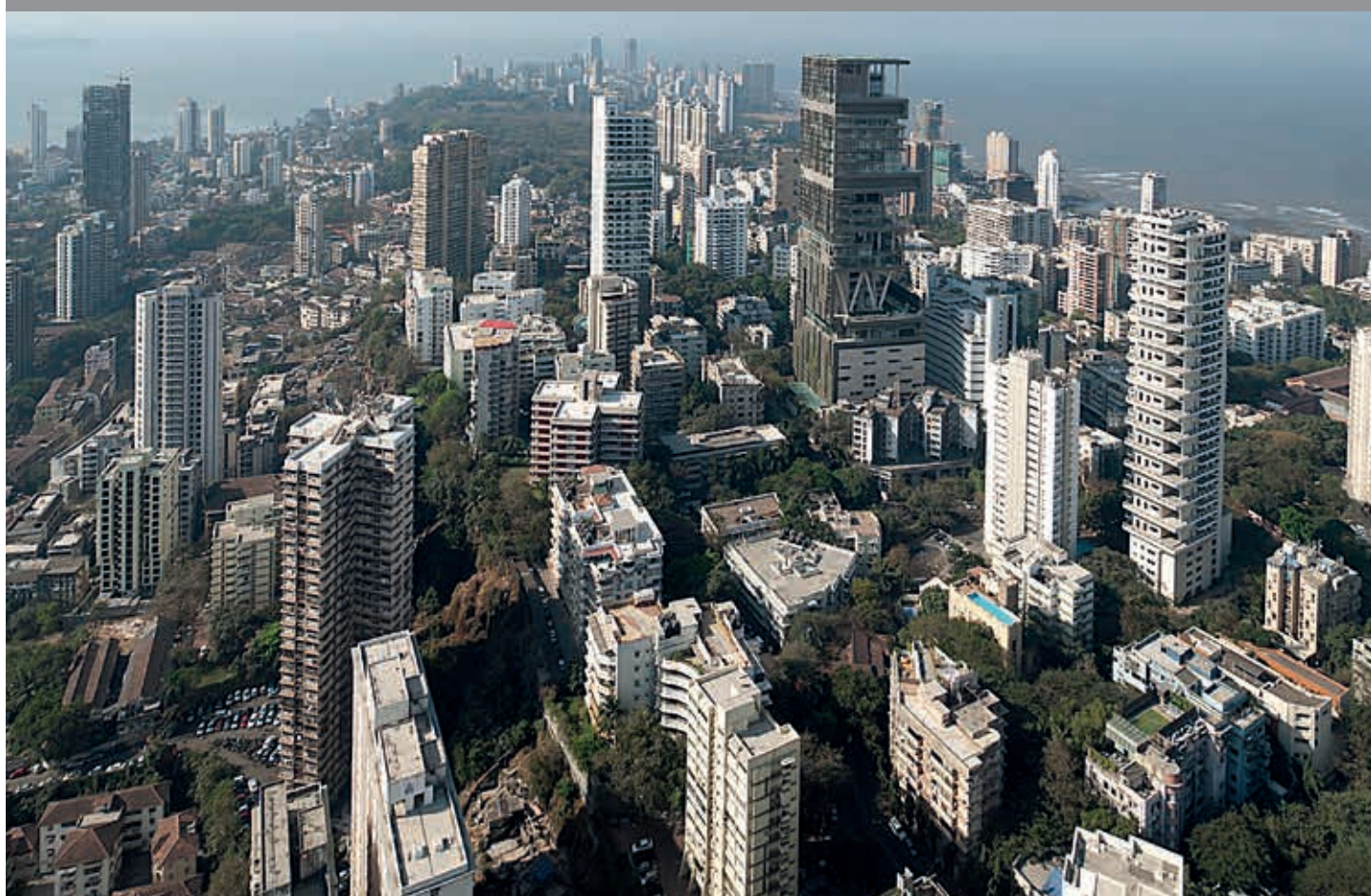
The rise of the next tier of developing nations means that the choice of investment destinations is growing – and this is particularly true for businesses looking to establish an export base.

Nevertheless, we think that India is still a very attractive proposition for global investors. The country offers two distinct advantages. First, with one-sixth of the world's population, India's domestic market is driven by internal consumption. Second, India is home to both a skilled and low-cost workforce – making it a very strong manufacturing destination, even for exports.

But the Indian business environment is challenging. Investors need to equip themselves to deal with complex regulations; limited, but improving, infrastructure; and a complex operating environment. In addition, prospective investors need to assess quantitative aspects of growth, while also integrating social and environmental sustainability in their business models.

Any potential investor needs to have a thorough understanding of Indian consumers as well as the location in which they are planning to invest. In such a large country, consumer patterns and preferences differ across regions. And the ease of doing business and number of opportunities can also vary widely between states.

In addition, navigating the evolving Indian regulatory system is often challenging. One way through this is for investors to partner with local manufacturers and suppliers, who can help newcomers to understand the local environment. We've seen this model prove very successful for some investors.



Future

India's future attractiveness

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India in 2020

p.45
Opportunity in
TMT, infrastructure,
industrials and retail

p.48
Key action areas

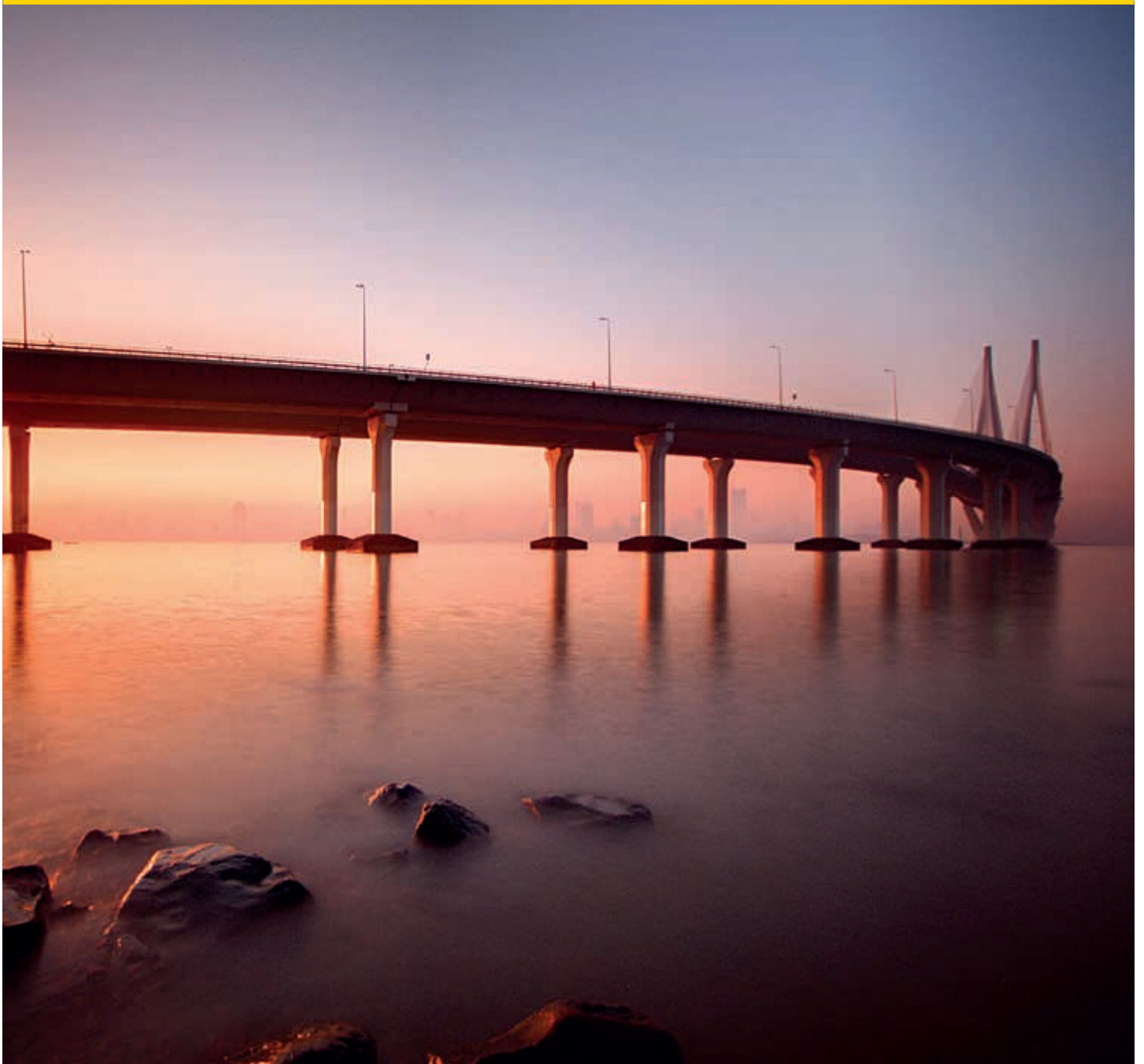


Image : Bandra Worli Sea Link, Mumbai.

Fulfilling the promise

How India can realize its potential as an investment destination – and how it can raise awareness about its emerging cities.

India in 2020

India's dynamic standing in the global marketplace is set to strengthen further in the years to come. Our survey respondents believe that India will continue to enjoy solid growth and develop particular strengths in manufacturing and infrastructure.

How do you see India in 2020?

	Responses from surveys	
	2014	2012
Among top three growing economies*	28.6%	29%
Among leading three manufacturing destinations	23.6%	25%
Country with substantially improved infrastructure	18.3%	24%
R&D and innovation hub	15.4%	19%
Competing directly with developed economies	14.5%	na
Among leading three shared services destinations	14.3%	27%
With one of the best business education and higher learning systems	10.8%	20%
A regional and global operations hub	9.4%	19%
Leader in high value-added services	8.9%	na
A base for large multinationals due to entrepreneurial ecosystems	6.9%	na
Surpassed by strong competition from more dynamic countries	5.2%	11%
Other	7.6%	na
None of them	4.4%	1%
Can't say	5.8%	5%

* The 2012 survey's response was phrased as "Achieved double-digit growth rates."
Source: EY's 2014 India attractiveness survey (total respondents: 502); EY's 2012 India attractiveness survey (total respondents 506); only 382 had an international presence. Respondents in both the surveys selected more than one possible answer.

Key findings

81% of respondents believe that India is moving toward technologically advanced manufacturing.

30% name TMT as the sector with the most potential.

29% think India will remain among the top three fastest-growing economies by 2020.

25% want to see R&D partnerships between foreign and local companies.

6 actions to be taken: enhance the business environment, develop infrastructure, advance factors of production, improve the tax system, remove FDI-related barriers and raise awareness of emerging cities.

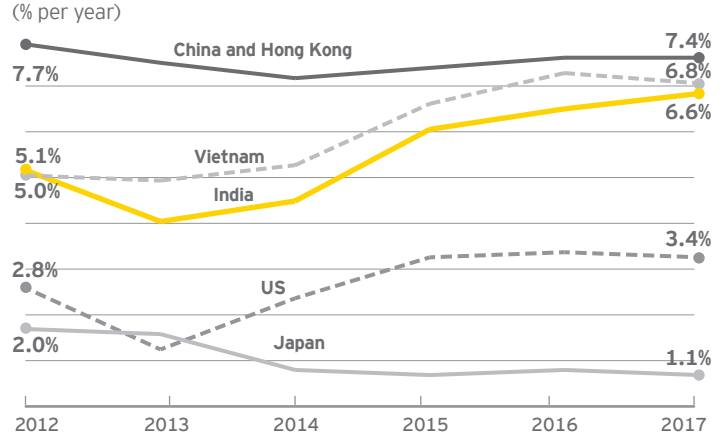
Among the three fastest-growing economies in the world

The effort to ensure that growth is sustainable will define the current decade for India. A growing middle class and rising per-capita income levels will boost domestic consumption, helping to drive economic growth. India's GDP per capita is expected to rise from US\$1,473.2 (INR79,204.3) to US\$1,916.1 (INR103, 061.1)⁷⁵ by 2016. Growth will be led by an increase in the working population.⁷⁶ Moreover, India is set to be the country with the youngest population by 2020. Such demographics are expected to boost the country's GDP by 2%.⁷⁷

Only 5.2% of survey respondents expect India to be surpassed by rising competition from more dynamic countries by 2020. This compares with 11% in last year's survey. German carmaker Mercedes-Benz expects India to be among its top 10 markets by the end of this decade.⁷⁸ Meanwhile, business leaders are considering taking advantage of the cost differentials on offer in investment destinations such as the Philippines, Indonesia and Bangladesh. They are also giving importance to risk management and optimizing the supply chain.

75. "Currency converter," Oanda website, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.
 76. EY Rapid-Growth Markets Forecast, EY, October 2013, p.36.
 77. "India is set to become the youngest country by 2020," The Hindu website, www.thehindu.com, accessed 10 May 2013.
 78. Sharmistha Mukherjee, "Mercedes-Benz to assemble more models in India," Business Standard, 26 June 2013, via Dow Jones Factiva, ©2013 Business Standard Ltd.

Country-wise real GDP growth



Sources: EY Rapid-Growth Markets Forecast, EY, October 2013; World Economic Outlook, IMF, October 2013.

A leading destination for manufacturing ...

The supply of a large, skilled workforce; an emerging supply base; access to natural resources such as aluminum, iron ore and cotton; and government initiatives will all play a significant role in driving the momentum of India's manufacturing sector. Several global companies are now considering diversifying their production and sources of supply away from China, and are looking at India as an alternative.

India progresses to technologically advanced manufacturing

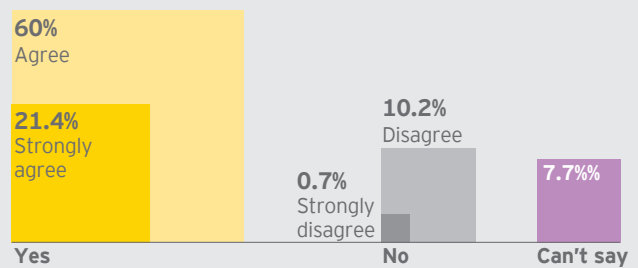
New production technologies such as robotics, artificial intelligence (AI), 3-D printing and nanotechnology are gradually becoming a part of India's manufacturing capability. These technologies will require skills in design and services – areas in which the Indian workforce is progressing.

A number of companies are now using advanced manufacturing techniques in their production plants in India. For example, Volkswagen's plant in Pune uses futuristically designed technologies and production methods. Robots and conveyor belts complete routine tasks such as testing car frames and component dimensions.

Recently, production and export of engineering and other sophisticated goods have increased. The infrastructure deficit and supply of superior technical capabilities have led to companies specializing in the production of advanced, high-precision goods, instead of labor-intensive manufacturing. Moreover, high-value merchandise such as industrial machinery, refined petroleum products, automobiles and

Expectations for manufacturing

Do you think that India is moving toward technologically advanced manufacturing?



Source: EY's 2014 India attractiveness survey (total respondents: 502).

spare parts now dominate the mix of Indian goods exports. These industries are capital- and technology-intensive, and require fewer, but higher-skilled, workers than labor-intensive methods.

Increasing India's innovation capacity

What are the main measures for improving India's technology and innovation capacity ?

Facilitate R&D partnerships between foreign investors and local companies	24.8%	
Focus on collaborations between universities and industry	20.3%	
Increase incentives for companies to invest in R&D and innovative technologies	20.0%	
Focus on public-private partnerships in technology	19.1%	
Increase government support for the commercialization of innovative projects	18.0%	
Develop joint research programs	12.1%	
Establish policies that support the development of emerging technologies	11.7%	
Develop a culture of innovation and creativity	11.2%	
Support and facilitate the development of industrial parks and industrial zones	9.8%	
Can't say	18.1%	

Source: EY's 2014 India attractiveness survey (total respondents: 502).

Global manufacturers, such as General Motors, Bridgestone and MeadWestvaco Corp, are expanding their operations in India. For example, in its Chakan plant, in Pune, Bridgestone plans to increase its installed daily capacity to 10,000 tires for passenger cars and 3,000 tires for buses and trucks.⁷⁹

India's Government is working hard to improve the global perception of the country's manufacturing sector by creating well-connected industrial corridors, establishing specialized skill development programs and entering into regional FTAs. While these initiatives are received positively, much of the sector's future development depends on whether India is able to find a permanent solution to its power shortage problems, boost its labor productivity and improve its inefficient transport infrastructure.

Toward a more innovative India

India's Government is keen to enhance the country's innovation capacity. It has declared 2010 to 2020 the "Decade of Innovation" and set up the National Innovation Council to develop a culture of inclusive innovation.⁸⁰ The Science, Technology and Innovation Policy 2013 aims to position India among the top five global scientific powers by 2020. Under the policy, the Government aims to increase the gross expenditure on scientific research and development to 2% of GDP. The policy also contains plans to establish technology business incubators and science-led entrepreneurship institutions. However, given its innovation

potential, India is underperforming. Its ranking on the *Global Innovation Index* fell from 64th in 2012 to 66th in 2013.⁸¹

- ▶ The National Entrepreneurship Network (NEN) is working with the department of science and technology and other stakeholders to promote innovation-driven entrepreneurship in campuses across India.⁸² Another initiative taken by the Government to encourage collaborative research is the Australia-India Strategic Research Fund.⁸³
- ▶ In India, in-house R&D on chemicals, drugs pharmaceuticals, biotechnology, electronic equipment, computers, telecommunications equipment, aircraft and helicopters is eligible for a tax deduction equivalent to one-and-a-half times the amount spent.⁸⁴ Moreover, as a part of the Union Budget 2013-14, the Government set aside a sum of US\$36.4m (INR2.0b)⁸⁵ to fund organizations that scale up science and technology innovations, commercialize R&D results and make the products available to consumers.
- ▶ The National Innovation Council plans to set up cluster innovation centers that will be the meeting point for various stakeholders. There, they can jointly pursue innovation activities and foster the culture of innovation.⁸⁶

81. "India slips to 64th on global innovation index," *Business Standard*, 3 July 2013, via Dow Jones Factiva, ©2013 Business Standard Ltd.

82. "Creating a culture of innovation," *Mint*, 10 December 2012, via Dow Jones Factiva, ©2012 HT Media Limited.

83. Australia-India Strategic Research Fund (AISRF), *Ministry of Science and Technology, Department of Scientific & Industrial Research*, January 2013, p.2.

84. Industrial R&D Promotion Programme (IRDPP), *Ministry of Science & Technology, Department of Scientific & Industrial Research website*, www.dsir.gov.in, accessed 20 March 2013.

85. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0182, as per monthly average for 2013.

86. "Industry Innovation Clusters," *National Innovation Council website*, www.innovationcouncil.gov.in, accessed 25 February 2013.

79. "Bridgestone begins tyre production at Chakan," *The Hindu Business Line*, 6 February 2013, via Dow Jones Factiva, ©2013 The Hindu Business Line.

80. *Decade of Innovations: 2010-2020 Roadmap*, *National Innovation Council website*, www.innovationcouncil.gov.in, accessed 10 December 2012.

Interview



Consumer base entices investors

Dr. Hasit Joshipura
Managing Director, GSK Pharmaceuticals India

India is a very structurally heterogeneous country compared with other counterparts such as China or Brazil. The underlying differences include socioeconomic status, development and literacy in the country and political arena.

GSK has always bet high on India for the simple reason that we came into the country very early and have developed India-specific business models, unlike many other companies. This gives us a solid competitive edge and has helped us build a strong footprint over the years. India will always remain a very important and attractive destination for us because of its mass market. If you are not present in this mass market, you can never develop scale. In my opinion, the two keys to surviving in the Indian market are having a long-standing local presence and creating a unique model to serve an equally unique market.

India's future will not be defined by its

fiscal deficit, but by its ability to attract FDI. The long-term attractiveness of the country, irrespective of the fiscal deficit, will remain unchanged. Specifically, in pharmaceuticals, India needs to ensure that it is doing enough to attract foreign investors, as they make a great contribution to the development of local industry. Historically, all new health care solutions have been discovered elsewhere, and investors then bring them to India. Even in terms of introducing and adopting new manufacturing technologies, foreign investors have boosted Indian pharmaceuticals. While Indian companies have now begun stepping up investment in R&D and in manufacturing technologies, the role of foreign investors cannot be ignored. In addition, companies such as GSK are engaging in the equivalent of the ancillarization of pharmaceuticals – contract manufacturing, which aids in the development of the pharma space.














“If you are not present in this mass market, you can never develop scale.”

India is already a target market for GSK, and we plan to build on our strengths. Ours is a mutually beneficial arrangement; we will continue to bring appropriate health care solutions to India. All our products are very relevant to the Indian market, whether these are anti-infective or gastro-intestinal drugs, or our recent oncology offerings. In continuing to ensure that our products are suited to the local market, we will keep on retaining and building on our already significant footprint.

Opportunity in TMT, infrastructure, industrials and retail

Future sectors for FDI in India

Which business sectors will attract the most foreign investments in India over the next two years?

TMT	29.9%	
Infrastructure	11.3%	
Industrials	11.2%	
Retail	8.6%	
Automotive	8.4%	
Life sciences	4.7%	
Business services	3.8%	
Consumer products	3.3%	
Financial services	2.6%	
Energy	2.0%	
Metals and mining	1.8%	
Logistics	1.1%	
Other	11.3%	

Source: EY's 2014 India attractiveness survey (total respondents: 502).

TMT

Today, the majority of the Fortune 500 companies source their IT services from India. India's IT service offerings have also evolved from basic application development and maintenance to high-end services in sales and marketing; design, development and testing; and system integration functions. Looking ahead, the industry is expected to grow significantly on account of rising customer penetration and more IT spending by Indian companies and the Government. However, the sector faces a threat from other fast-growing economies, such as the Philippines and Vietnam, which offer similar services with low-cost labor and skilled manpower. Nevertheless, India's large talent pool and the sheer size of its market should continue to drive investment in this sector.

According to the Telecom Regulatory Authority of India, the country is home to the second-largest telecom market in the world, in terms of subscribers.⁸⁷ The National Telecom Policy aims to achieve 600 million broadband connections and 100% rural teledensity by 2020.⁸⁸ The launch of advanced multimedia mobile handsets is also expected to create significant demand for value added services. These developments will translate into considerable investment opportunities for global telecom service providers. However, despite these prospects, the Indian telecom sector suffers from challenges including aggressive price competition, regulatory uncertainty

87. "Trai: Telecom user base touches 898.02 million in March," *India Telecom News website*, www.indiatelecomnews.com, accessed 5 August 2013.

88. "Draft National Telecom Policy- 2011 Released by Shri Sibal," *Press Information Bureau, Government of India website*, pib.nic.in, 6 February 2013.

Government support for TMT

- ▶ 100% FDI permitted in electronics and IT sectors.
- ▶ The Modified Special Incentive Package Scheme (M-SIPS) 2012 offers subsidies for capital investment in electronics design and manufacturing.
- ▶ Software technology parks offer tax incentives and export promotion benefits.
- ▶ The National Telecom Policy, agreed in 2012, is designed to revive growth in India's telecom sector.
- ▶ 74% FDI permitted in broadcasting services.

Sources: Department of Industrial Policy & Promotion (DIPP); Foreign Investment Promotion Board (FIPB).

Government support for the infrastructure sector

- ▶ 100% FDI permitted for land transport support services such as handling cargo, construction and maintenance of roads, bridges and highways.
- ▶ 100% FDI permitted for ports.
- ▶ The Government has launched the India Infra Debt Fund to finance PPP infrastructure projects that have been in operation for one year.
- ▶ The Railway Budget 2013-14 proposes the highest ever funding for the railways, to the tune of US\$11.5b (INR633.63b).

Sources: "Quick Links Union Budget 2013-14," *Press Information Bureau, Government of India website*, pib.nic.in, accessed 6 September 2013; "Consolidated FDI Policy circular," *Department of Industrial Policy & Promotion, Government of India: Ministry of Commerce & Industry website*, dipp.nic.in, 6 September 2013; "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0182, as per monthly average for 2013.

and the recent negative publicity surrounding the cancellation of telecom licenses by India's Supreme Court, as a result of misappropriation of 2G licenses.

Prospects in India's media & entertainment industry also remain strong. The sector is expected to benefit from increasing digitization, rising advertisement revenues and growing penetration of 3G and portable devices.

Infrastructure

Investors are upbeat about India's infrastructure, but it is not up to the job of supporting the continuing process of urbanization. In order to bridge this gap, the sector requires US\$1t (INR53.8t)⁸⁹ of investment over the next four years.⁹⁰ A significant part of this

89. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

90. "India has \$1 trillion infrastructure deficit: Chidambaram tells World Bank," *The Times of India website*, www.timesofindia.indiatimes.com, accessed 20 June 2013.

Toward a new urban India

The High Powered Expert Committee on Urban Infrastructure and Services says that India's urban population is set to increase from 377 million in 2011 to around 600 million in 2031. This growth means that India needs to explore feasible ways of making its cities more sustainable, more conducive to business and better to live in.

In view of this, the Government's Jawaharlal Nehru National Urban Renewal Mission (JNNURM) aims to create at least one smart city in each state over the next 10 years. In fact, seven new smart cities are already being developed along the DMIC alignment and are expected to be completed by 2019.

▶ Smart transport infrastructure

The DMIC aims to ensure the availability of an efficient transportation system within these industrial cities. It plans to create rail and bus transport systems in phase 1, and light rail in its subsequent phases.

▶ Energy efficiency

These DMIC cities will focus on renewable sources of energy such as solar photovoltaic and solar thermal plants, biomass plants and charging stations as well as usage of smart grid technologies.

▶ Modern waste management systems

These cities will use modern waste management techniques as separation, incineration, water recycling and pneumatic waste collection systems.

Urbanizing India

DMIC alignment



Sources: *Report and Recommendations*, The High Powered Expert Committee on Urban Infrastructure and Services, 25 October 2011, p. 3; "Smart cities under JNNURM-II: Kamal Nath," *The Hindu business line website*, www.thehindubusinessline.com, accessed 7 January 2014; "The DMIC project will be delivered on schedule: Amitabh Kant," *Business Standard website*, www.business-standard.com, accessed 7 January 2014.

investment needs to come from the private sector. As such, there are myriad opportunities for private and foreign investment, particularly in the road transport segment. Around 3,000km of road projects in Gujarat, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh will be awarded in 2013-14.⁹¹ The Government has also set ambitious targets for granting rail, port and airport projects. Another significant development is the creation of dedicated freight corridors, connecting major industrial and commercial centers. The DMIC, for instance, is set to comprise nine industrial zones, six airports, a six-lane intersection-free expressway and a high-speed freight line. However, a lot of this growth will depend on how quickly the Government can award projects, and on the efficiency and success rate of tendered and ongoing projects.

Industrials

Our survey results suggest that industrials will be an important sector for FDI. This is in line with respondent sentiment that India will be among the three leading destinations for manufacturing by 2020. For more information, please turn to pages 13, 15, 16 and 42.

Retail

In the coming years, India's retail sector will be driven by rapid urbanization and the burgeoning middle class population. The sector's worth was estimated at around US\$470.6b (INR25.3t)

in 2012 and is forecast to reach US\$919.7b (INR49.4t) by 2017.⁹² Although the retail industry is currently dominated by small shops and stores, it is gradually shifting toward modern, organized retail formats. A major part of this growth will be online retail, driven by increased internet penetration, lifestyle changes and the growing consumer need for convenience. Several foreign players, including Wal-Mart, Carrefour, Tesco and Target, have entered the Indian retail market. They have mounted joint multi-brand retailing ventures with Indian companies that provide back-end logistical and supply chain management support. However, recent policy changes and the uncertain global environment have caused a few global retailers to postpone their plans to enter the Indian market.

Government support for the retail sector

- ▶ 100% FDI allowed in single brand retail, 49% through the automatic route and more than 49% requires approvals from the Foreign Investment Promotion Board.
- ▶ 51% FDI allowed in multi-brand retail through the automatic route.

Source: "Consolidated FDI Policy circular," Department Of Industrial Policy & Promotion, Government of India, Ministry of Commerce & Industry website, dipp.nic.in, accessed 6 September 2013.

91. Shamik Ghosh, "Budget 2013: Infrastructure gets a boost with Rs. 50,000 crore tax-free bonds," *NDTV India*, 28 February 2013, via Dow Jones Factiva, ©2013 NDTV Convergence Ltd.

92. *BMI INDIA RETAIL REPORT*, Business Monitor International, April 2013, p.14; "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

Interview



India offers array of opportunities

Ajay Shankar
Country Manager, Caterpillar India

The BRICs continue to be the leading FDI destinations. India has improved its position in the race for foreign investment with the relaxation of regulation (a more relaxed regulatory environment) in 12 crucial sectors. This opens the gateway for higher FDI inflows and outflows. By 2020, India will be one of the world's youngest nations: the average age of its population will be 29 – lower than most developed nations. Also, 64% of its population will be of working age. In addition, over the last 15 years, India has shifted its economic focus away from centralized planning to become a more deregulated and investment-friendly environment. These two factors have enabled India to become one of the world's fastest-growing nations and to establish its strong position in the global economy.

These trends make India an ideal investment decision. A recent United Nations Conference on Trade and Development (UNCTAD) report ranks India at 15 in the top 20 host economies by FDI inflow. As a result, if you take a long-term view, I expect foreign investment into the country to increase further over time.

Successive Indian governments have been opening up investments in the infrastructure sector, creating opportunities in power, roads, construction and mining for foreign companies. Recent reports suggest that construction work has started on 4,690km of highway, work on another 7,994km has been awarded, and contracts

for a further 17,103km have been awarded for 2013-14 and beyond.

The development of infrastructure will play a major role in sustaining India's growth. Significant investments will also go into developing ports, airports, roads, railways and real estate. For example, the national highways, with a total length of 70,934km, constitute about 2% of the entire road network in India. Yet they carry 40% of the total road traffic. To equip the country better, a massive 10-year program (2005-15) is being implemented in a phased manner, which includes upgrading 12,000km of the national highways, widening 20,000km to two lanes with paved shoulders, widening 6,500km to six lanes, developing 1,000km of expressways, and constructing 700km of ring roads around major cities.

Nevertheless, the road construction and mining sectors do pose a unique set of challenges. First and foremost is the issue of environmental clearances, and the second challenge is the renewed focus on infrastructural development while at the same time there is the continued use of conventional and obsolete equipment. If India is to meet its ambitious targets for sustainable development, the industry will have to be equipped with the latest available technology. The Indian Government continues to simplify the approval process, including setting up several agencies to expedite FDI approval. While the focus on infrastructure growth has led to policy

“The development of infrastructure will play a major role in sustaining India's growth.”

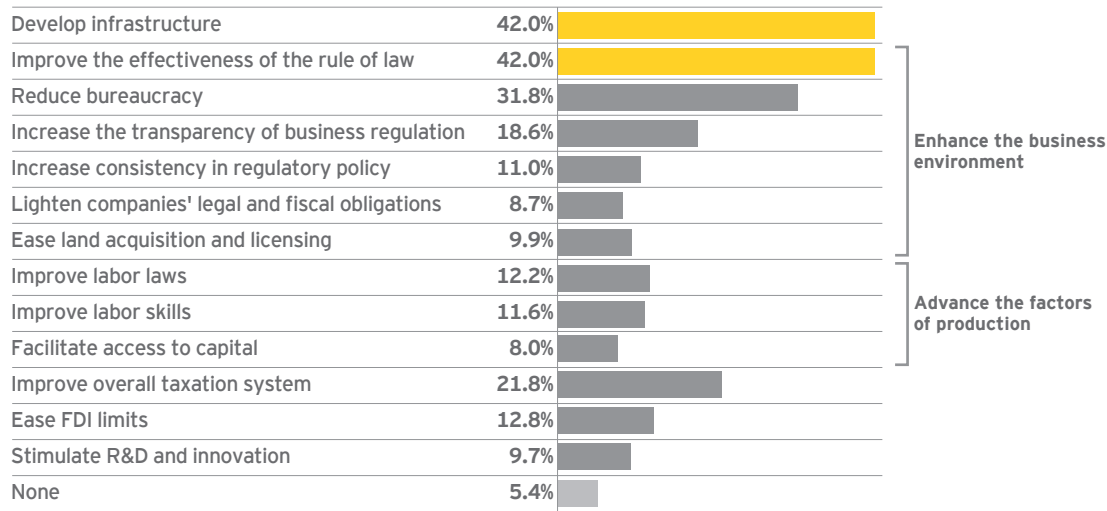
initiatives such as the Committee on Infrastructure and the PPP Appraisal Committee, more is required to improve the situation. The Government could consider simplifying the pre-tendering approval process, which is currently centralized and time-consuming. In addition, state governments and relevant authorities should be better aligned when projects are awarded. This would help firms to avoid obstacles while seeking clearances from state governments for shifting utilities and traffic. Construction work should be free of concerns about land acquisition and clearance-related delays after changes in tendering and scope. Timely and fair settlement of these issues is essential to maintain progress.

India is undergoing rapid economic development. Therefore, potential and existing investors should consider the many unique opportunities available in each state – in line with their business strategies and long-term vision for India.

Caterpillar in India is investing for the future. We believe we are well positioned to meet the growing expectations and needs of customers.

Key action areas

Priority measures for improving India's investment climate



Source: EY's 2014 India attractiveness survey (total respondents: 502). Respondents selected more than one possible answer.

1 Enhance the business environment

► Improve the effectiveness of the rule of law and reduce corruption

According to *Transparency International's Global Corruption Barometer 2013*, around 70% of people in India believe that corruption has become more widespread in the last two years, compared with a global average of 53%.⁹³ EY's report *Bribery and corruption: ground reality in India*, also, highlights that recent corruption scams will harm FDI flows into India.⁹⁴ To enhance India's appeal, it is very important to upgrade administrative procedures and increase accountability. Vigilance departments need to be strengthened and given the power to function independently. India also needs to address the issue of bribery of domestic and

foreign public officials. In view of this, the Government proposed the Prevention of Bribery of Foreign Public Officials and Officials of International Organizations Bill. The legislation makes taking or giving bribes to foreign public officials a criminal offense, punishable by up to seven years' imprisonment.

► Increase transparency

Investor confidence in the economy is dependent on high levels of transparency and corporate governance. The Government recently passed the long-due Companies Act 2012, which is expected to strengthen corporate governance and bring India in line with global best practices for corporate affairs. The country can improve transparency further by making examples of those who fail to comply.

93. "Corruption at all-time high in India: Survey," *Business Standard*, 9 July 2013, via Dow Jones Factiva, ©2013 Business Standard Ltd.

94. *EY's Bribery and corruption: ground reality in India*, EY, July 2013, p.12.

The new Companies Act

In order to improve corporate governance, enhance accountability and align financial reporting with global trends, the Government passed the Companies Act in August 2013. It replaces the Companies Act 1956 and will consolidate and amend regulations. Its intention is to improve the corporate governance framework for companies operating in India.

Some highlights of the bill include :

Incorporation rights

- Increases the number of private company members from 50 to 200
Impact: allows more access to capital
- Introduces the concept of a "small company"
Impact: simplifies process for starting a business

Independent directors

- Requires that at least 33% of the board should comprise independent directors and they should not have more than two consecutive tenures of five years each on the board
Impact: addresses shortcomings in the definition of independent directors and their code of conduct

Corporate social responsibility

- Provides specific provisions for conducting CSR – spending at least 2% of average net profits in the three immediately preceding financial years
Impact: fosters social inclusion and human development by strengthening the link between businesses and communities

Source: *Understanding Companies Bill 2012*, EY, February 2013.

► Reduce regulatory hurdles

Some multinationals recently withdrew their investment from the country on account of excessive regulatory bottlenecks. India needs to ease the cost and time burden on businesses by simplifying administrative processes. The country needs to undertake a systematic review to discover the areas where the Government should withdraw its regulatory oversight. The review should take the views of business leaders and policy-makers into consideration.

► Make policy more consistent

In the past, there have been instances, such as that of FDI in retail, where the Government either had to stall or reverse its policy. In an uncertain environment, investors tend to defer long-term investment decisions until they are clear about policy. This highlights the need for India to have a consistent and progressive regulatory regime. Furthermore, various stakeholders should contribute to the policy development phase so that potential pitfalls can be avoided when the policy is implemented.

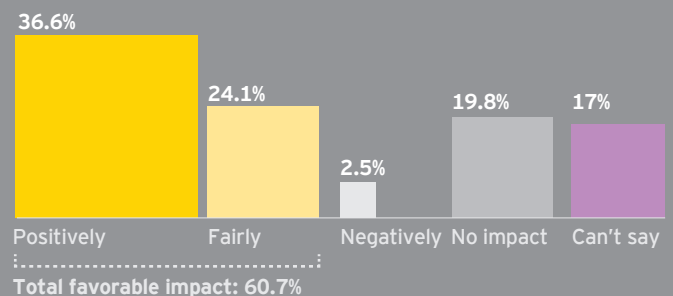
► Ease regulatory procedures governing land acquisition and licensing

Problems acquiring land have led to delays and cancellations among some key projects in India, including that of POSCO and ArcelorMittal.⁹⁵ In several cases, projects are allotted to companies even before the relevant authorities acquire the entire piece of land. To avoid this, the Government can issue guidelines to ensure that projects will only be awarded when the majority of the required land has been acquired by the respective authorities. The Parliament passed the Land Acquisition and Rehabilitation & Resettlement Act in September 2013. The legislation streamlines the land acquisition process and reduces land-related litigation issues.⁹⁶

95. Rakhi Majumdar, "Posco, Arcelor exit won't impact India: Steel companies," *The Economic Times*, 25 July 2013, via Dow Jones Factiva, ©2013 The Times of India Group.
96. *India Infrastructure Summit 2012*, EY, August 2012.

Companies Act impact on investment decisions

How will the new Companies Act impact your investment decision in India?



Source: *EY's 2014 India attractiveness survey* (total respondents: 502).

2 Develop infrastructure

A significant infrastructure deficit has opened up in India. EY's *Infrastructure 2013* report suggests that these infrastructure shortages reduce India's GDP by at least 2% annually.⁹⁷ To fill the gap, the Government has already initiated large projects such as the DMIC, an elevated freight-rail corridor in Mumbai, an expressway project in Delhi and a road improvement project in Chennai.

In the future, the country should adopt global best practices for infrastructure development, focusing on optimizing cost and energy efficiency.

- ▶ In the past, public-private partnerships have achieved limited success. An institutional mechanism to monitor implementation and resolve disputes is required.
- ▶ There is also a need to accelerate infrastructure delivery by reforming various stages such as pre-tendering, execution and financing.
- ▶ Millions of people are migrating to cities every year, putting pressure on urban infrastructure that is already inadequate. Planning and developing additional resources for the migrant population is another important area of concern.

3 Advance the factors of production

▶ Improve labor laws

Respondents highlighted a need to reform India's complex labor laws. Certain laws such as the Industrial Disputes Act (IDA) 1947 prevent companies that employ more than 100 workers from letting go of employees for any cause other than criminal misconduct. As a result, most companies are reluctant even to hire new workers. The Government should simplify and consolidate the distinct pieces of legislation into a comprehensive code – one which is balanced between both employer and employee. Such a code can be developed in consultation with employers, trade unions and labor law experts.

▶ Facilitate access to capital

Respondents to our survey also believe that improving access to finance is an important way for India to make its investment climate more appealing. India has a well-developed financial system. It can be improved and strengthened further to ensure the optimum allocation of capital.

97. *Infrastructure 2013*, EY, May 2013, p.7.

4 Improve the taxation system

The World Bank's report *Doing business 2014* ranks India 158th, out of 189 countries for paying taxes. This highlights the urgent need for improvement.⁹⁸ One way of doing this is by simplifying the procedure for paying taxes. According to the *Doing Business 2014* report, each year, an average mid-sized company in India makes around 33 payments and spends 243 hours paying taxes. These figures are higher than those of the other BRIC economies. In order to reduce these numbers, the Government has been promoting electronic filing of tax returns for both corporates and individuals.

Furthermore, India should progress to a growth-oriented tax system by levying balanced and effective taxes. The Indian Government has already taken some steps in this direction. It has proposed a goods and services tax, direct tax code and General Anti-Avoidance Rules (GAAR) to make the taxation system more effective. These changes have long been discussed, and a major effort is now required to implement them in a timely and appropriate manner. India also needs stable international transfer pricing rules to create a tax environment that is conducive to multinational companies. In view of this, the Government finalized the safe harbor rules, in September 2013. These rules minimize transfer pricing audits and litigation issues.⁹⁹

5 Eliminate FDI-related barriers

Over the last two years, the Government has taken steps to remove barriers to FDI in a range of sectors. In September 2012, it passed reforms allowing 100% FDI in aviation, 74% in broadcasting, up to 100% in single brand retail and up to 51% in multi-brand retail. Furthermore, in July 2013, it eased FDI rules for several sectors, allowing 100% FDI in telecoms, asset reconstruction companies and courier services; and 49% in insurance, power exchanges, stock exchanges and depositories. This momentum needs to be maintained and these policy changes must be implemented effectively.

98. *Doing Business 2014 Understanding Regulations for Small and Medium-Size Enterprises*, The World Bank, 2013, p. 198.

99. *Safe Harbour Rules Finalized after Considering Comments of Various Stakeholders; Rules to Be Applicable for 5 Assessment Years Beginning from Assessment Year 2013-14*, Press Information Bureau, Government of India, 18 September 2013, p.1.

Interview



India has moved from cost to value

RK Rangan
President and CEO, Nomura Services India

Notwithstanding the recent economic challenges, in my personal opinion, India's fundamentals are strong enough for resurgence to happen sooner rather than later. I believe, the medium- to long-term outlook is very strong. Having said that, the country does need to improve its political and economic governance. Here, the fiscal deficit plays a great part that has a chain reaction and can lead to inflation and currency risk. In such situations, the rating agencies look at the country differently and the new investors are very cautious.

To drive growth, India needs to focus on infrastructure, building or upgrading airports, roads and ports. The energy sector will also be a big driver. Further consolidation is required to realize the full potential of our technology and communication sectors. The Government also needs to focus closely on manufacturing. Today, India has the opportunity to compete with China in certain manufacturing sectors.

While the recent relaxation of FDI regulations is welcome, it is not enough. Such announcements have been made in the past, but adequate support structures were not provided, so the effect was not realized. Policy measures and reform framework have to go hand in hand.

Something as basic as infrastructure has deterred growth in the financial services and offshoring sector. Nevertheless, India's

talent base and cost advantage continue to appeal to investors. Companies that come to India for offshoring realize the need to get into local business. For example, foreign banks understand markets and strengthen their local business in India. Clearly, as opportunities increase, the support structure needs to be strengthened. India's advantage for offshoring technology and related fields continues to be strong.

While demographics are in our favor, India needs to work on meaningful skills development. There is a gap between the skills desired by domestic and foreign companies and those that are available in our market. This creates an urgent need to upgrade India's education sector. The pace and extent of this improvement will have a direct bearing on the talent pool availability, which will have a direct bearing on scalability, time to market, cost etc. Moreover, India's development is regionally biased. It is restricted to four or five states or metropolises. No investor wants to go to an untested metropolis, because this entails an additional cost of infrastructure and talent development.

This is where the Government can step in and accelerate development. It should invest in infrastructure in regions where literacy is high. Multinational companies have set up their shared services in cities such as Ahmedabad and Pune for this reason. Educated people in these regions

“India's development is regionally biased. This is where the Government can step in and accelerate development, by investing in infrastructure in regions where literacy is high.”

are finding meaningful careers and they do not need to move to other cities. There are many untapped places, including Cochin, Kolkata, Bhubaneswar and Bhopal. In every state, there is at least one progressive metropolis that can be suitably developed for our industry.

India has to be looked at from a long-term perspective. For this, long-standing and significant up-front investment in knowledge transfer and technology is imperative. Companies need to invest in building capabilities, training and sponsoring R&D work. Along with it, companies need to create a working model that suits India's domestic needs as well.

India has moved from cost to value. Once you come and open yourself up to a billion people, the opportunities are definitely there.

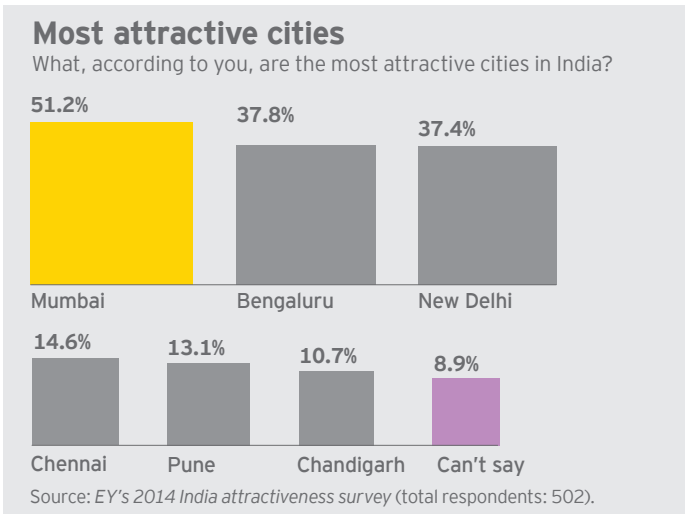
6 Raise awareness of emerging cities

43% of respondents could not name any emerging city in India.

While the large metropolitan areas continue to receive significant capital inflows, global business leaders are yet to realize the potential of India's rising cities. Responses to our

survey highlighted a sizeable awareness gap about tier-II and tier-III cities. When asked about the most attractive investment destinations in India, Chandigarh was the only non-metropolitan city named by respondents.

To sustain its economic development, it is critical that India builds awareness of these cities. Benefiting from differential factors such as large catchment areas, low attrition, cost arbitrage and the availability of a fresh talent pool, they can become destinations of choice for setting up R&D, TMT or outsourcing centers.



► Ahmedabad

Ahmedabad is one of the fastest-growing regions in terms of infrastructure development and investments. The presence of renowned educational establishments, such as the Indian Institute of Management, the Mudra Institute of Communications and Nirma University, provide a well-educated talent pool in the city. The city also offers a well-developed transport infrastructure by way of its established Bus Rapid Transport System (BRTS) facility and ongoing Metrolink Express. Its presence on the DMIC provides strong connections to Mumbai and NCR and therefore to national and international markets.

► Jaipur

Jaipur has long been a favored tourist destination. Now, it is gaining prominence as a business and investment site. Proximity to NCR, proactive governance and investor-friendly policies help to make Jaipur an attractive business destination. Mahindra World City, a business city integrated with a special economic zone (SEZ), is situated in the outskirts of Jaipur. It is already home to leading corporate organizations such as construction equipment manufacturer, J.C. Bamford Excavators and financial services provider, Deutsche Bank.¹⁰⁰

► Chandigarh

Chandigarh offers a well-developed urban infrastructure and connectivity to major locations in north India. This makes it a preferred destination for investment in knowledge-intensive sectors such as business services and TMT. The Chandigarh Technology Park in North-East Chandigarh, the IT Park in Mohali and the Rajiv Gandhi Chandigarh Technology Park are the major attractions for TMT companies. The Chandigarh administration has also established the Chandigarh Training on Soft Skills project for developing computer and other skills at school and college level.¹⁰¹

► Coimbatore

Coimbatore serves as an important commercial destination. It is a preferred location for industrial and technology projects. The city accommodates three SEZs that are oriented toward TMT and high-tech engineering. To boost investment in the TMT sector, the Government offers incentives such as capital subsidies, exemption on stamp duty and no registration fees.

► Surat

Surat's industrial base comprises mainly of textile manufacturing and diamond processing industries. The city accounts for more than 70% of the total rough diamond cutting and polishing in India, and around 12% of the fabric production. A well-developed road and rail network, and the ports at Hazira and Magdalla, provide logistical support to the industrial sector.¹⁰² Surat is expected to benefit further from the Reliance Hazira petrochemical complex, the Gem & Jewellery Park at Ichhapore and a centrally promoted SEZ.¹⁰³

100. "About MWC Jaipur," *Mahindra World City website*, www.mahindraworldcity.com, accessed 1 July 2013.

101. "Background," *Department of Information Technology Chandigarh website*, www.chdit.gov.in, accessed 18 July 2013.

102. "The City," *Surat Municipal Corporation website*, www.suratmunicipal.gov.in, accessed 1 August 2013.

103. *Surat & Tapi*, Industry Commissionerate Government of Gujarat, March 2010.

Looking east

Although FDI flows in India have increased significantly in the last decade, this growth has mostly been restricted to the country's economically advanced regions. The eastern region, in particular, has struggled to keep up.

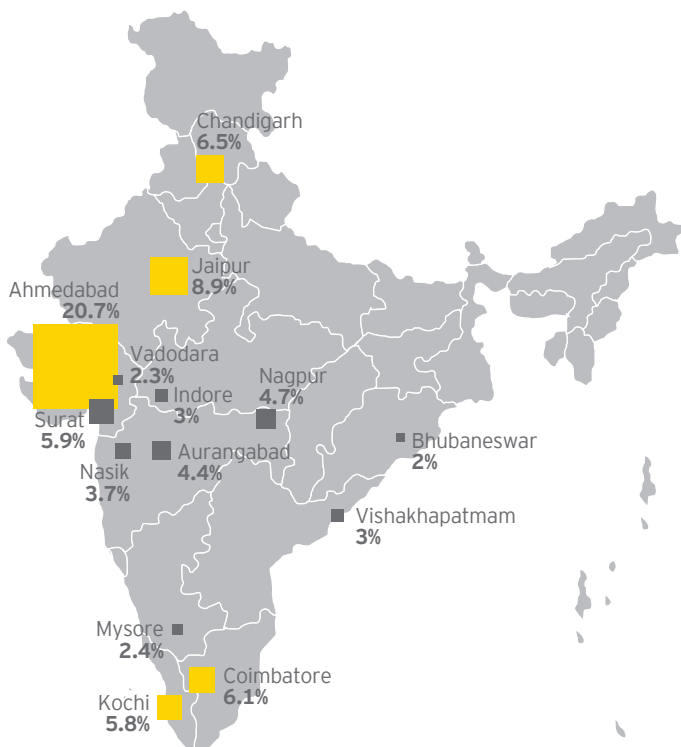
A lower per-capita income, smaller local markets, a lack of international ports and regional insurgence issues prevent investors from setting up shop in the region. Moreover, foreign delegation visits to India are mostly limited to the big metropolitan cities, denying these regions the attention of international investors.

A conscious and coordinated effort on the part of national and state governments is necessary to boost FDI in these areas. One way could be following the Chinese model of raising the entry requirements for FDI into advanced regions. This would secure high-value investment in advanced areas, while encouraging labor-intensive investment in the disadvantaged regions. The Government also needs to improve links to the eastern region by increasing domestic and international flights and improving airport facilities.

Source: *Regional Inequality in Foreign Direct Investment Flows to India: The Problem and the Prospects*, Reserve Bank of India, October 2010.

Emerging cities

What are the emerging Indian cities for investment?



Source: EY's 2014 India attractiveness survey (Total respondents: 502).

► Kochi

Kochi has emerged as an important commercial trading center due to its strategic location on the west coast of Kerala. The major industries for FDI in Kochi include TMT, infrastructure and logistics. Its high literacy rate and low setup and operational costs make it an attractive destination for TMT investments. The Board of Cochin International Airport Limited recently announced a new US\$83.7m (INR4.5b)¹⁰⁴ international terminal, designed to match the passenger amenities offered by new generation airports. It is expected to cater for up to 10 million international passengers every year.¹⁰⁵

104. "Currency converter," *Oanda website*, www.oanda.com, accessed 6 September 2013, exchange rate used INR1 = US\$0.0186, as per monthly average for 2012.

105. "State-of-the-art terminal at CIAL soon," *The Hindu website*, www.thehindu.com, accessed 21 July 2013.

► Nagpur

Nagpur is an emerging services and logistics destination. Benefiting from its central location, the city is home to the Multi-Model International Passenger and Cargo Hub Airport, which includes an international passenger and cargo airport and a large SEZ.¹⁰⁶ The Nagpur Integrated Road Development Project and the Inland Container Depot Project are other government initiatives that have been undertaken to improve Nagpur's infrastructure and promote it as a logistics hub.

► Aurangabad

Aurangabad has emerged as a strong industrial base. It is a preferred destination for automotive assembly, automotive components, beverages and pharmaceuticals. Part of the DMIC early bird project, the Shendra-Bidkin Industrial Park is being developed in Shendra, near Aurangabad. On completion, it will be an industrial township for superior quality products meeting international standards. It will boost sectors such as rubber, plastics, petroleum, coal, automotive and ancillary.¹⁰⁷

106. "MIHAAN," *Zilla Parishad Nagpur website*, www.nagpur.nic.in, accessed 17 June 2013.

107. *Aurangabad Vision 2020*, Aurangabad DistrTMT Government, February 2012.



What it means for businesses

Our 2014 survey results confirm investors' interest in India, particularly among those who are already in the country and have allotted a considerable amount of capital.

Investors are optimistic about India's future as they see the country becoming more technologically advanced, its manufacturing appeal is growing and an array of new measures is implemented, such as the development of industrial corridors and NMP.

The Indian Government is working to improve the country's business environment, and investors are beginning to benefit from improved efficiency and lower costs. Increasing urbanization and recent reforms in the retail sector are among the factors that create robust opportunities for investors.

Metropolitan cities continue to attract the most FDI. But new tier-II and tier-III cities such as Ahmedabad, Jaipur and Chandigarh, are also proving increasingly attractive to foreign companies. These cities allow investors to target a new, wider consumer base consisting

of high net worth individuals and the emerging middle classes. Rapid infrastructural development in these cities has also improved growth opportunities. With proper due diligence, an understanding of state-level policies and regulations, and strategic cost-benefit analyses, these new markets have a lot to offer investors.

Like many other fast-growing nations, India is focused on innovation – as the increasing number of R&D and design centers make clear. India's sheer size and level of segmentation, as well as the availability of R&D skills, mean that it offers a good platform from which companies can test their products and processes. Successful breakthroughs are often widely applicable, and can be exported to other markets.

However, to make these opportunities a reality, the Government needs to focus on reducing corruption and removing regulatory hurdles; increasing transparency; easing land, labor and taxation regulations; and, most importantly, reducing India's infrastructure deficit.

Methodology

EY's 2014 India attractiveness survey is based on a twofold methodology that reflects:

1 The real attractiveness of India for foreign investors

Our evaluation of the reality of FDI in India is based on the fDi Markets database. The fDi Markets database tracks new greenfield and expansion FDI projects. Joint ventures are only included where they lead to a new physical (greenfield) operation. M&A and other equity investments are not tracked. There is no minimum size that a project must reach in order to be included. However, every project has to create new jobs directly. Project creation and number of jobs generated are widely available on FDI. However, many analysts are more interested in quantifying projects in terms of physical assets, such as plant and equipment, in a foreign country. These figures, rarely recorded by institutional sources, provide invaluable insights as to how inward investment projects are undertaken, in which activities, by whom and, of course, where. To map these real investments carried out in India, EY used data from fDi Markets. This is the only online database tracking cross-border greenfield investments covering all sectors and countries worldwide. It provides real-time monitoring of investment projects and job creation, with powerful tools to track and profile companies investing overseas.

2 The perceived attractiveness of India for foreign investors

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country's or an area's ability to provide the most competitive benefits for FDI. The field research was conducted by the CSA Institute between July and September 2013, via telephone interviews, based on a representative panel of 502 international decision-makers. Business leaders were identified and interviewed in 25 countries.

Those interviewed were an international panel of business leaders of all origins, with clear views and experience of India, comprising:

- ▶ 39% North American businesses
- ▶ 32% Western European businesses
- ▶ 21% Asian businesses
- ▶ 4% Northern European businesses
- ▶ 3% Middle Eastern businesses
- ▶ 1% Central and Eastern European businesses

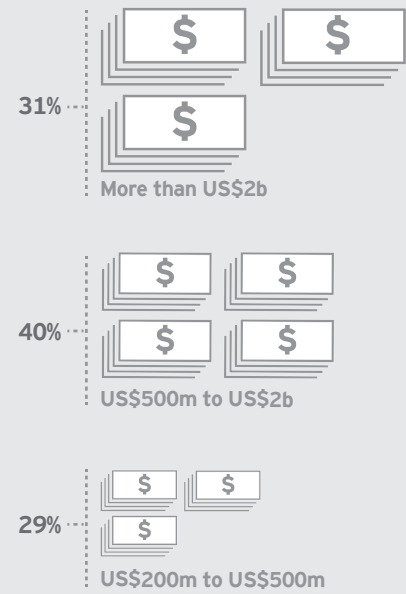
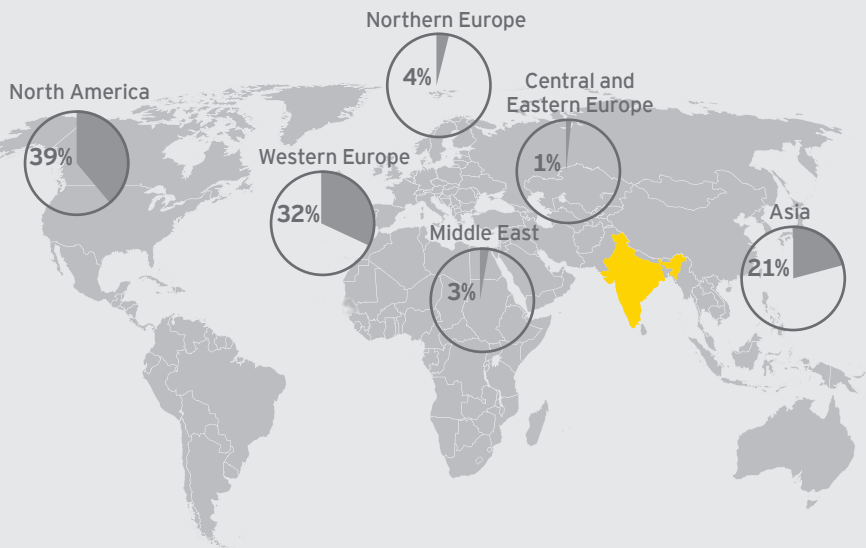
Out of the total 502 interviews, 50% were conducted in India and 50% outside India.



Profile of companies surveyed

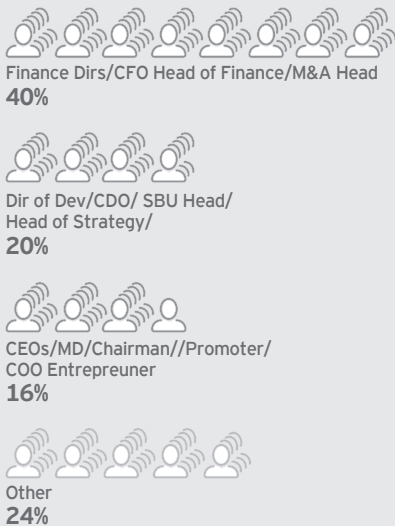
Geography

Turnover



Job title

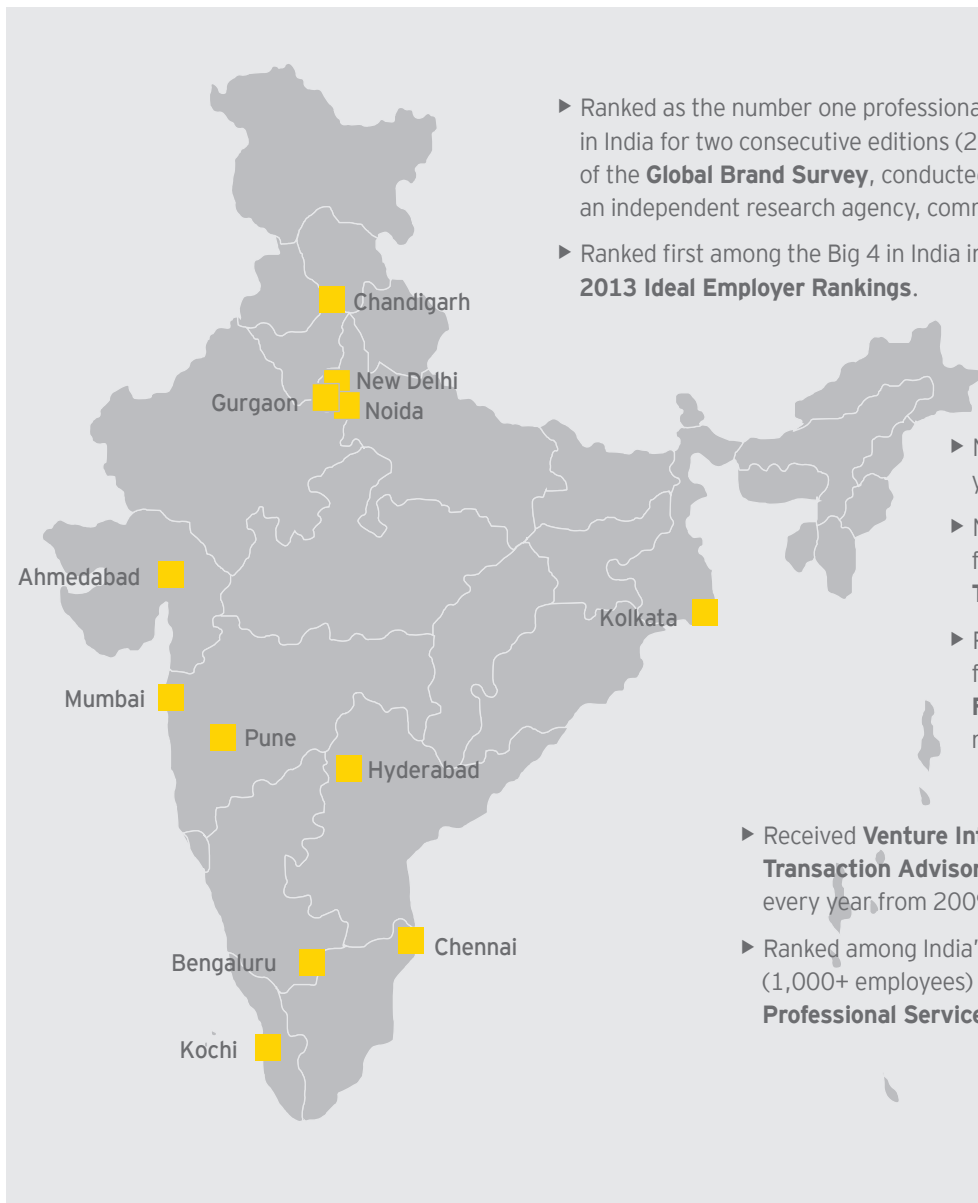
Sector of activity



EY in India

EY in India has consistently been recognized as the market-leading professional services organization. EY employs about 8,000 people across offices in 10 cities, including Ahmedabad, Bengaluru, Chandigarh, Chennai, Hyderabad, Kochi, Kolkata, Mumbai, Delhi NCR and Pune.

Our accolades in India include:



- ▶ Ranked as the number one professional services brand in India for two consecutive editions (2013, 2011) of the **Global Brand Survey**, conducted by TNS, an independent research agency, commissioned by EY.
- ▶ Ranked first among the Big 4 in India in **Universum's 2013 Ideal Employer Rankings**.
- ▶ Named tier-I tax firm for 11 consecutive years by **Euromoney ITR, World Tax Guide**.
- ▶ Named most reputed tax firm in India for four consecutive years by the **TNS Global Tax Monitor Survey**.
- ▶ Ranked by **Bloomberg** every year from 2002-12 as the number one **Financial Advisor in India** for most number of deals.
- ▶ Received **Venture Intelligence's Most Active Transaction Advisor Award – PE and M&A** every year from 2009-12.
- ▶ Ranked among India's top 50 for 2011 and 2012 (1,000+ employees) and among the best in **Professional Services – Great Places to Work**.

Publications

EY Rapid-Growth Markets Forecast – October 2013



Uncertainty in financial markets is exposing weaknesses among emerging economies. Find out how they are responding to sharp currency falls and what this means for the businesses that invest there. Read EY's latest *Rapid-Growth Markets Forecast* to find out more.

Differentiating for success: securing top talent in the BRICs



The lack of critical skills in emerging markets has resulted in a significant human capital problem, which is negatively affecting firms' competitiveness and strategic growth. In this report, we seek solutions through the five strategies for talent attraction and retention, based on a survey of over 1,000 professionals in the BRIC countries.

► To be released on 29 January 2014.

The EY G20 Entrepreneurship Barometer 2013: "Closing the gap: entrepreneurs seek accelerated change in G20 rapid-growth markets"



The *EY G20 Entrepreneurship Barometer* captures the voice of the entrepreneur through a survey of over 1,500 business owners across the G20. With RGMs making up half of the G20 economies, a special extract highlights the key themes that distinguish their entrepreneurial environment from their more developed peers.

Managing indirect taxes in rapid-growth markets



This report highlights the importance of managing indirect taxes in RGMs, aiming to help tax executives start wider discussions throughout the organization about how to best manage indirect taxes in the global supply chain.

Doing business in India 2013



An annual guide for companies that operate in India or plan to establish operations in the country. It provides a quick overview of India's investment climate, taxation, forms of business organization, and business and accounting practices.

Transactions quarterly



An EY newsletter that provides regular insights on the evolving transactions environment. It analyzes key inbound transactions involving foreign companies; outbound acquisitions by Indian companies; and sectoral trends.





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Growing Beyond

In these challenging economic times, opportunities still exist for growth. In *Growing Beyond*, we're exploring how companies can best exploit these opportunities – by expanding into new markets, finding new ways to innovate and taking new approaches to talent. You'll gain practical insights into what you need to do to grow.

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